AMERICAN BANKERS ASSOCIATION JOURNAL

What Kind of an Investment Is a Real Estate Mortgage Bond?

By KEYES WINTER
Deputy Attorney General of New York State

Investigation of Fifteen Mortgage Bond Houses Doing Business in New York Revealed that Nine-Tenths of Issues Were Pure Construction Loans. Ten Points Is Underwriter's Profit. Six Requirements Laid Down for Houses Selling Serial Bonds.

THE task of policing the sales of securities in and from the state of New York is entrusted to me as the deputy of the Attorney General. My jurisdiction in this respect is derived from a law known as the Martin act. It is an investigation act empowering the Attorney General and his deputies to investigate fraudulent transactions in securities and to maintain injunction proceedings before our Supreme Court. It differs from the licensing acts in force in forty-three of our states in this important respect. The licensing act, or Blue Sky Law, requires any person selling securities to first obtain a license from the state. The applicant must first qualify himself and the security he sells as fit, in which event the license issues.

Under our act, however, any person may sell any security until the Attorney General by his investigations discloses either that the seller is unfit or that the security is fraudulent, in which event an injunction from the Supreme Court terminates the sales.

May Sell Until Stopped

FOR the purpose of investigating, however, our law gives the Attorney General broad inquisitorial powers—the power to subpoena, the power to examine under oath and compel the production of books and documents, and makes a failure to answer the questions a misdemeanor punishable by a fine of $5,000 or two years' imprisonment. Ordinarily, the exercise of this inquisitorial power is sufficient to choke off the fraudulent or unsound promotion without the interposition of the court.

Real Estate Mortgage Bonds

I HAVE been invited to treat the subject of real estate bonds and mortgages. I am limiting myself, however, to serial bonds sold to the public in small denominations, the security for which are mortgages upon uncompleted or projective buildings which are to be constructed from the proceeds derived from the sale of these bonds. The date of the first record of any extensive distribution is 1907. The industry, however, owes its large expansion to the building shortage following the war in 1918; also the Liberty Bond campaigns had educated the masses to make small investments in relatively low-yielding securities; and these real estate bonds of smaller denominations with higher yields and promises of equal safety found a ready market.

This industry has swollen to enormous proportions. Fifteen companies selling these securities in the state of New York had outstanding on Dec. 31, 1926, 1105 issues of a par amount of $932,000,000. Of this amount, over $300,000,000 has been sold in the past year.

For some time past, however, suspicion has been aroused against this financing and criticism has been directed chiefly at the reckless appraisals of some of these enterprises. These criticisms and the general feeling of insecurity finally inspired an investigation by the Department of Banking of Pennsylvania and by my office into the condition and the practices of the houses promoting these enterprises and selling these bonds. The first house investigated, G. L. Miller & Co., promptly failed, disclosing to the public and to the investors of Miller bonds an unsound and unhealthy condition in this industry.

The investigation conducted by my office under our law has been pending since October, 1926. Over 250 questionnaires were distributed among the brokers and companies dealing in real estate bonds and mortgages of all kinds and descriptions. The inquiry narrowed down, however, to the fifteen companies that I have mentioned. A great mass of information has been compiled and analyzed of the financial structure of these companies and of the moneys received and spent by them.

Pure Construction Loans

THE results of this inquiry were highly illuminating and disclosed conditions requiring drastic regulations. Of the 1105 issues, I found that 961 were pure construction loans and the balance of 144 were made on completed buildings. Before construction started, the greater part of these issues were completely sold. In most every instance interim certificates were sold, being the liability only of the underwriter.

Let me now briefly describe these bonds and mortgages and indicate the security of

the bondholder and the liability of the various parties to him.

The borrower enters into an underwriting agreement with the issuing house, by which the latter undertakes to purchase from him an issue of bonds to be secured by land and a contemplated building. The price of these bonds is discounted ten points, the underwriter's profit. The underwriter pays the price in installments to the borrower at different stages of the construction of the building upon architects' certificates. A mortgage is thereupon made of the land and improvements to a trustee to secure the required bonds. The bonds and the mortgage provide for the payment by the borrower immediately in monthly installments of a sinking fund for the amortization of the mortgage and also for the yearly interest due on the bonds and also for taxes. These payments are made to a fiscal agent appointed by the underwriting house. In some instances the fiscal agent is the trustee, but in over half of the issues is the underwriting house itself.

Where the underwriting house receives these payments the mortgage authorizes it to mingle them in its general funds, subject to the risks of its business, making the bondholder a general creditor to this extent, of the underwriting house, although the mortgaged property is released from any lien on account of this liability. These mortgages and underwriting agreements can be searched in vain for any other liability of the underwriting house to the bondholder. There is certainly no undertaking to complete the building.

Mingling of Funds

IN practice we found that the fifteen houses examined invariably carried the entire proceeds of the sale of these bonds in their general funds and mingled them with their capital, and, when received, also with their amortization payments and interest and tax payments. Out of these funds payments were indiscriminately made to underwriting liabilities without reference to whether the bonds on account of the same were sold or unsold. Where buildings had failed, they were taken over and operated out of these funds. Where interest amortization and taxes were defaulted on one building, the defaults were paid out of these funds without notifying the bondholders of the default. Unsecured loans were made to officers or pets of the underwriting houses, and the entire fund was generally treated as the capital of the business of the underwriter. As a result, the finances of these companies were dangerously frozen.

Our survey revealed that there was an excess of current liabilities over quick current assets of these companies of approximately $62,000,000, although their total capital and surplus was $31,000,000. Yet this analyzes itself into unsecured loans to officers and subsidiaries, good will and advances to borrowers on account of defaults and excess payments to complete buildings where the loan was insufficient for that purpose, all of which were tightly frozen and left no working capital. It is obvious, therefore, that additional loans by these companies were impossible without the use of funds properly applicable to old loans. At the time of our inquiry this business had pyramided to the saturation point.

Their safety was further jeopardized by the enormous amounts of bonds outstanding in the investing public, all of which were sold on an understanding that the issuing house would make a market for them, requiring their redemption by the underwriting house because of the fact that there was no outside market. Let the good name of the underwriting house be impaired and a run would thereupon ensue, and in the case of Miller & Co. did ensue by the investors calling for the redemption of their bonds. On account of the frozen condition of their capital and surplus this could only be done out of their construction funds, which funds in turn tended to become frozen.

We also found that the land and buildings securing these bonds were largely overvalued, the practice being to capitalize prospective earnings. The evil of this may be illustrated by the experience of a well-known real estate operator in New York City who applied for a loan to one of these houses on a completely tenanted building. The loan was refused as being excessive, although a larger loan had been made on an uncompleted building across the street, with no tenants.

As a reason for this glaring inconsistency, it was frankly stated that the loan could not be justified upon the tenanted building, whereas on the untenanted building a much larger loan could be explained by anticipated rentals.

In this situation the helpless bondholder is at the mercy of the selfish interest of both the borrower and the underwriter, both of whom profit in proportion to the size of the loan. Furthermore, the competition for these loans has become so keen and the loans are shopped around so that the appraisal is invariably made to fit the loan instead of the loan to fit the appraisal. Yet these real estate bonds are bought by the public as investments, secured with an ample margin of safety represented by the actual value of the buildings and lands, and not by speculative values based on conditions that are not in existence at the time the bonds are issued.

Requirements in Force

AS a result of my inquiry into this situation, and to cure these evils, I have announced the following requirements that are to be observed by the real estate bond and mortgage houses selling serial real estate bonds in and from the state of New York:

1. The proceeds of bonds secured by uncompleted buildings shall be segregated for the account and uses of the particular building upon which such bonds are issued, and shall be absolutely protected from the general risks of the business.

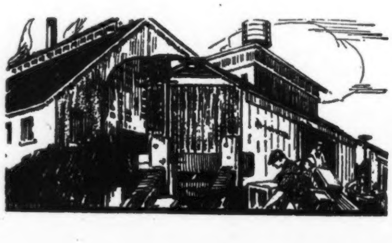
2. Payments by the borrower on account of principal, interest and taxes shall be segregated for the account of those uses and shall be protected from the general risks of the business.

3. Bondholders shall be given reasonable notice of defaults in principal and interest payments, and in changes in the condition of their security necessary for their protection.

4. Where the underwriting house, or any person connected therewith, has any financial interest in the building or enterprise securing these bonds, except commissions for selling the same, then such house or person shall not act in any transaction relating to the same as a trustee for the benefit of the bondholders.

5. All bonds secured by uncompleted buildings shall be issued and sold on the basis only of the actual cost of the building and the market value of the land until the enterprise is self-supporting.

6. No misrepresentation of fact nor any concealment of a material fact that will affect the value of the bond shall be made by the issuing house in any circular by the underwriting house in connection with the sale of these bonds.



The evils that I have enumerated are recognized by these houses themselves. They have shown a commendable spirit of co-operation. They have suggested remedies more drastic than those I have announced and finally they have assured me of their prompt adoption of these principles and a regulation of their business in accordance therewith. The largest of these houses have already liquidated their frozen assets and set up their amortization and interest payments and also their construction funds into segregated trust accounts earmarked and invested in liquid assets.

Met Housing Shortage

IT is only fair to this great industry to point out here that it has taken an important part in meeting the building shortage following the last war, marshalling the funds of investors for the erection of much needed buildings.

The evils that have crept into this industry were due, if I may use the past tense, to the lack of voluntary restraint or regulation. If I may be permitted to say so, the conditions that we found here were parallel to those that grew up among the banking and insurance practices of the last century. Insurance companies and bankers, as we all know, used their premiums or their customers' deposits without any restraint or regulation so that it became necessary, after scandals had shown the necessity, to impose government regulation upon the handling of these funds.

Upon the same theory we have imposed our regulations upon these real estate bond and mortgage houses with a view to preserving their assets in a condition so that under any possible contingency the liability to the bondholder may be met when the occasion arises.

New Facts and New Dollars

By MAURICE HOLLAND

Director, Division of Engineering and Industrial Research, National Research Council

Is the Business of the Banks' Customers Getting Benefit of Research to the End That Both Business and Banking Are Protected, Is a Pertinent Question When Profits Leap Because of Laboratory Discoveries and Industries Lag Because of Neglect.

"DON'T swap horses while crossing a stream" was an ancient and honorable pearl of wisdom and treated with due respect in the days of hair pins, harmonicas, whip sockets, and picture hats—the "Gay Nineties" they were called.

In the "Turbulent Twenties" we change horses at a gallop! We ride on air, radio checks, rubberize paper, refine sugar from sunflowers, write with fountain pens made of sour milk, and play poker with chips made from cheese.

We revolutionize industries overnight by research.

From the laboratory comes a discovery which may mean a new industry, or the expansion of one, and losses for another. Today's discovery in the field of scientific theory inevitably leads to application in the practical field of business tomorrow. Within an industry research may put in a new and oust an old leader.

Linemen once wore rubber gloves as insulators against death-dealing currents; today announcement comes from the Eastman Kodak Research Laboratories that metals are being rubber plated by electro deposit methods. We bounce around the tennis courts on shoes soled with sprayed rubber. A new refrigerant in the form of solidified gas freezes ice cream so hard you have to warm it up to serve it!

What of the Technical Assets?

THEREFORE, it is not strange that new conditions bring a new viewpoint on the importance of research. Leading bankers have begun to realize that it is not enough to know the commercial and financial condition of an industry or an individual company. They must also know the technical assets which lie behind the balance sheet, because plant, processes and product may fall victims of competitive research.

The synthetic children of research are as varied as the family of modern industries. Dr. Harrison E. Howe, editor of one of the country's most respected chemical journals, lecturing recently on research as a factor in prosperity, was pushed from the platform by the myriad exhibits of science-aided industries—glass, rubber, leather, paper, textiles, metals, paints, cement, sugar.

"Victor Company's Profit $7,983,094—Sum exceeded only once in corporation's history" is the title of a research story buried in the financial page of the *New York Times* of recent date. For eleven years the Victor Talking Machine Company paid dividends

A Timely Question

ARE our important industrial customers getting the benefit of commercial research in their various lines, or are they by indifference to research exposing themselves to the danger of being placed hors de combat by some competitor?

Some of the things which research has accomplished, as related in the accompanying article, indicate this to be a timely question for bankers everywhere. For there is always the possibility that scientific advance may undermine a seemingly impregnable industry.

of $42 a share on its common stock. The business was so well organized and highly profitable that in 1922 an additional 600 per cent stock dividend was distributed. Meanwhile research developed the radio, and the Victor Company passed its dividend. Emergency measures were resorted to in an attempt to force the breath of life into the business by a high pressure sales campaign. Advertising, publicity and other commercial first aids were tried in an effort to restore circulation by artificial means, and failed.

No less an authority in these cases than Roger Babson stated in a Market Letter: "The time is past when advertising alone will get sales. The two best salesmen today are 'a better product' and 'a cheaper way of making it.' Research opens the way to both!" So a doctor was called in; not one of medicine, but a doctor of science. A technical examination of the plant, the processes and the product convinced him that the business was suffering from more than a temporary relapse.

The primary cause of trouble was a deep-seated internal disorder which would require a major operation. Research—destroyer had undermined the foundation of the old manufacturing structure, rendered the product obsolete and reduced the business to losses. Research—creator striking deep at the roots of the problem, anchored the new foundation in bedrock of pure science.

A By-Product of Research

MEN called dreamers, seekers after truth, pushing back the frontiers of knowledge, were making fundamental investigations of sound in the Bell Telephone Laboratories, backed by "patient money." Investigations to improve the quality and increase the volume of sound for long-distance telephony yielded unexpected dividends. The minted winnings of scientific research produced much fine gold, while further reduction turned out by-products from the lesser ore. One of these, fashioned by applied science, to the pattern of a specific need was—the Orthophonic Victrola.

This infant, synthetic creature of the laboratory brooder of new industries, was taken over by the Victor Company. Nurtured by prudent management, molded to efficient production, and exploited by adequate financing, this modern Frankenstein shoulders its way among towering skyscrapers—its competitors. President Shumaker of the Victor Company says in his report for 1926, "No stronger evidence of the remarkable response of the trade and the public to your company's new and vastly improved products could be presented than the results of the year as set forth in the consolidated statement of profit and loss." He might have added, "Dividends of research!"

Radio, that modern miracle worker, was waved into the world on the wand of magic a little more than fifty years ago. Its parentage was unquestionably scientific since it was created out of the stuff that science is made of—the involved mathematical formulas of Maxwell, an English physicist. In 1890 Hertz demonstrated the truth of Maxwell's theory, and five years later Marconi gave the invention to the world in the first actual wireless telegraph. Today you can phone to London at $25 a minute, and last year over half a billion dollars' worth of radio equipment was made and sold to the radio fans.

When you think of big jobs—a great engineering feat such as the Panama Canal comes to mind. Building it cost a little over $300,000,000. Enlarging the telephone system of New York, New Jersey and part of Connecticut called for an investment of over $500,000,000 since Jan. 1, 1920. Forty-

C. F. Kettering, General Director of General Motors' research work

seven years ago the world's entire telephone plant could be held in the hand of one man—the instrument which Bell invented. Something like 10,000,000 calls are now made each day in New York and its environs. Today there are 17,000,000 instruments, 21,000 central stations, 350,000 employees, 25,000,000 miles of wires, and a total plant investment of $2,000,000,000 in the United States alone.

Milestones along the Royal Road of Research which mark this phenomenal growth are inscribed in this fashion:

By increasing the number of pairs of wire carried in a telephone cable from 50 in 1880 to 1500 in those in present use, $100,000,000 have been returned to the treasury.

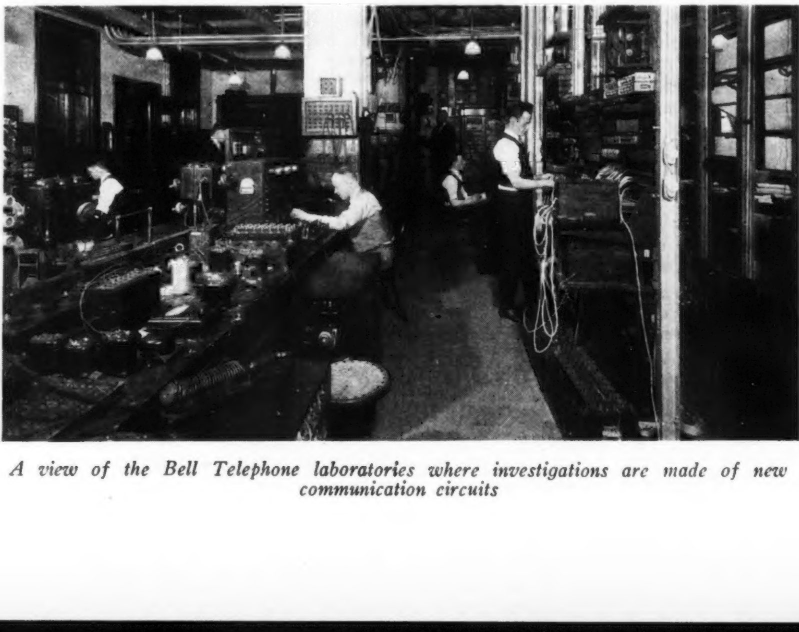
By replacing the tin used in lead cable with antimony, $6,000,000 was saved in ten years.

A new contact metal to replace platinum has paid a dividend of $13,000,000 since 1916.

The phantom circuit system applied to a network of 400,000 miles of wire netted the American Telephone & Telegraph Company $80,000,000 in the trade of facts for dollars.

"Duco" was the research answer to "Why?" Why it took so long for paint to dry on cars. The loss on storage space clogged with cars in process of drying was enormous. But let C. F. Kettering, general director of General Motors Research Laboratories, tell that story in his own inimitable way.

"It took thirty-seven days to properly paint an automobile, and about the same length of time to wear it off!" Mr. Kettering declared.



A view of the Bell Telephone laboratories where investigations are made of new communication circuits

In order to speed up production, he called on the foreman of the paint shop.

"Why does it take you so long to paint a car?" Mr. Kettering inquired.

"I don't know how to dry the linseed oil base any faster," the foreman answered. After reflection, he volunteered, "Linseed oil has been used as a base for paint ever since I have been a painter, and it's probably the best that can be gotten."

Back to the laboratory Kettering went to find the reason why. Not being handicapped by traditions and practical experience in making paint, he and his staff developed a quick drying lacquer. In fact so quick drying was it that in the first test, using a spray gun, the paint was too dry to stick when it hit the body. From a quick drying paint the problem turned to one of slowing up the drying speed. Working with the staff of the du Pont Research Laboratories, Duco was developed and has already saved the automobile industry millions of dollars and the public an untold amount in paint bills.

As late as 1895 Selden was taking out his patent on the basic invention which was to put the nation on wheels. In a little over thirty years the automobile has been pushed by technical development and research to the front rank in the big parade of modern industry. "I can tell the kind of a car it is by one look at the radiator," you may have heard a technically minded youngster boast. The passing show of the present day is what he sees. I can tell you the kind of a car any company in the business will have in 1930 by one look at their research laboratory today.

Comes Now the Technical Audit

FORECASTING futures by a study of the present trends of research in industries will be reduced by trained observers to the same simple formulas and computations which now govern the transactions in May cotton and December wheat on the New York Exchange. In the not far distant day of "the technical or science audit" of an industrial company, barometer charts based on technical, not the commercial, state of industry will appear. The technical audit, as a supplementary safeguard to the protective devices now used in long term industrial loans, seems to be inevitable development in banking.

Bell Telephone laboratories—the largest private research laboratory in the world. Here 3700 scientists spend $13,000,000 a year on research in communication

Some of the factors behind the scenes of the balance sheet which play important rôles are the technical state of the art, the plant, the processes and the product. Research facilities, the attitude of the management toward research and technical advances made in foreign countries which may influence the domestic market all have a meaning to the eye of a skilled observer which may be translated into the language of dollars and cents—deficits or dividends.

In this age of mass production, big volume, quick turnover, the average American business man wants action! A quick return. His conception of research is that it is something like a mysterious box of black magic, in which you should be able to put a research appropriation in the slot, turn the crank, and dollar dividends would roll out. Compare that picture of the attitude of the American executive with the business judgment and vision which financed the "speculations" of academic - minded Ph.D.'s, and were rewarded with the control of the dye markets of the world by Germany.

It took fifteen years of research and an expenditure of 29,000,000 gold marks to produce the formula for aniline dyes, a good illustration of "patient money." Ten thousand new dollars is the annual return for new facts bought at a cost of $350 from a research laboratory by a client corporation doing much machine (C't'd on page 854)

The Champion Borrower

There Were Only Five Banks in Town But Pat Simms, When the Blowup Came, Was Found to be Borrowing From Them All. Though He Could Neither Read Nor Write, He Managed to Get $50,000 in Bank Loans. A True Story of this Borrower.

I SHALL not claim the national borrowing championship for Patrick Simms, but he unquestionably holds the local title in our town. And what is more, I think he will continue to hold it for all time.

I note that bankers in some of the other smaller communities occasionally get sufficiently wrought up to refer to the slippery individual, who conceals the fact from one bank that he is borrowing from another, as the "pestiferous duplicate borrower." Pat Simms was no such piker. He was a quintuplicate borrower. There were just five banks in our town—a thriving city under 25,000 in a farming community in the middle west—and when the blowup came, it was found that Pat was borrowing from every one.

Pat Had Standing

PAT—the name is fictitious, but the story that I shall relate is true—was a big-fisted, loose-jointed Irishman. He apparently had been a farm laborer in his earlier days, but had married the only daughter of a well-to-do farmer, who lived in a nearby county. His father-in-law was a director in a bank there, and owned stock in one of the banks in our town. Pat had lived in our community, for about ten years, had always taken care of his obligations and was regarded as a desirable citizen. He was a trader in mules and a buyer of livestock on a small scale, and seemed to be doing well. At all events, he had no trouble in obtaining credit.

One day he chanced to be in the lobby of our bank. I started to chat with him and, ever anxious to get new business, I asked him if we couldn't do a little business together.

"Well, we might be able to do some a little later," he remarked, and almost immediately took his departure.

That was a prophetic statement, because he came in the bank shortly afterward and stated that he would like to borrow $1,000 on the security of his wife's name. He explained that he had been doing all of his banking with another institution, which I shall call the First Bank, where his father-in-law owned stock and where he was indorser for the money he had been advanced. I told him that we always required a financial statement, and he replied that he would be perfectly willing to supply us with one. Checking over his property, he recited that he owned a 160-acre farm, free of encumbrance, quite a little city property and a good deal of livestock. He admitted that he had a small indebtedness on his business, but added that he proposed to close this up and have relations only with our bank if we would grant him the accommodation sought. Finally he signed a statement showing a worth of approximately $60,000.

Pat rushed into the bank. He was visibly excited

This satisfied me—so we made him a loan of $1,000, both him and his wife signing.

Couldn't Read nor Write

NOTHING out of the way happened until some weeks later. Then the cashier came to me and said: "Pat Simms is drawing $500 in cash." It was a little unusual for anyone in our community to draw out such a large amount in cash without some special reason, so I walked to the teller's window and engaged him in conversation.

"Why do you draw $500 in cash?" I asked. "Why don't you give your check?"

"I can neither read nor write except to sign my name," he replied. "I got stung one time by signing my name to a paper which I thought was for one amount and which proved to be for a larger sum. So when I am buying livestock I sign the check for money at the bank. I am willing to trust the banker, but not an outsider. I can count the cash, then I know I am all right."

It was this ingenious explanation that put me soundly to sleep. It also made the events that came later seem plausible, although nothing unusual occurred with the account over a period of five or six years—except that Pat Simms was allowed to increase his indebtedness to our bank until he owed us around $6,000. But he was seemingly an industrious fellow and was in good standing, so we didn't worry over it.

One of the officers in our bank got a hunch that Pat was not such a good risk, but admitted that he couldn't explain just why he was suspicious. Money at that time was getting a little tight, so I called Pat into the bank and suggested that he reduce his indebtedness 50 per cent. He replied that he would do this provided we would lend him $500 more, as he wanted to buy a bunch

(*Continued on page* 856)

The Guiding Policies of the Bank of Italy

By JAMES A. BACIGALUPI
President, Bank of Italy National Trust and Savings Association

Principle of Diversified Investment Was One Large Factor in Establishment of State-Wide Branches. Many Stockholders Rather Than Few Dominating Owners. Rotation In Office of Senior Executives a Novel Idea. Eventual Employee Control.

In Limelight

THE largest American bank, outside of New York City, is in California. While its size alone would make a discussion of its policies and aims of general interest to the financial world, it is different from other colossal institutions in that it operates 279 branches on a state-wide scale. The bank recently gained the limelight by joining the national system. That bankers might learn something of its guiding principles, the editor of the JOURNAL *invited its head officer to write this article.*

WITH the enactment into law of the McFadden Bill, bringing into play definitely modernized powers for national banks, the directing executives of our institution determined that an application should be made for a charter, as a member of the national association.

Analysis of the new legislation indicated that certain advantages, from our point of view, should attach to nationalization. At the same time, it was no minor consideration that our responsibilities in the economic scheme of things could be better assumed through this action. We had but recently merged with Liberty Bank of America—an institution of some $200,000,000 in resources—thereby creating an organization of enlarged scope and potential usefulness. This amalgamation found us occupying a position as the largest bank in the United States, outside of New York, and the only one of the first three institutions not operating under national charter.

An Obvious Target

BECAUSE the Bank of Italy has always been America's chief exponent of state-wide branch banking, it has naturally followed that in the various attacks directed at this system we have been the most obvious target. And while we have earnestly supported the Federal Reserve System in fact and precept (being its principal member in the Twelfth District), there has always been an opportunity for those who inveighed against us to suggest that we could, and in all probability would, withdraw our support if anything transpired to block our plans for continued branch expansion.

Groundless as this insinuation has been, and in the face of our continuing membership during 1925 and 1926, when we were not permitted to establish a single new branch outside of the city of San Francisco, there seems to be no check upon the malicious whisperings that we were making plans to abandon the Federal Reserve. Therefore, when we merged with Liberty Bank of America—a non-member institution—it seemed evident that we might expect a resurrection of the subject of withdrawal.

In reviewing the situation, we came to the conclusion that the best answer we could make to those who persisted in the belief that we were planning on surrendering our membership in the system was conversion to a national charter, with its mandatory provisions for remaining in the Federal Reserve organization. This we have done, and by so doing have brought to an end all gossiping on this score.

Believer in Branch Banking

FROM the earliest days of the Bank of Italy, we have believed in branch banking. It has seemed to us that the financial requirements of our state could be satisfactorily met in no other way.

California has enjoyed a consistent and increasingly substantial period of growth during the past quarter of a century, and the demands for adequate banking facilities have paralleled this development. Except through a branch bank organization, there seemed to be no way to supply a stable and sufficient reservoir of credit in the various communities where it was most needed.

That our belief was well founded is best evidenced by the fact that during the recent years of post-war adjustment, no city, town or village, served by the Bank of Italy, has lacked for ample funds with which to carry on its activities or to develop its legitimate agricultural and industrial enterprises.

In building up our organization, we have sought for public participation in our undertaking. This has been obtained by securing a wide patronage in the various communities where our branches are established, and also through a general distribution of our stock. More than 1,000,000 people in California transact their business with the Bank of Italy, while our ownership is vested in nearly 15,000 stockholders.

When the bank was organized, certain principles were outlined to serve as guideposts. Chief among these was the then extraordinary statement that the institution should be operated for the benefit of its customers and stockholders, and should not be used as the means for the personal enrichment of its officers. As a result of this, all of our executives are chiefly concerned in operating the bank efficiently and devoting their time to the service of the depositors.

Other policies, of course, have been formulated and have had a definite bearing upon the growth of the bank. For one thing, it has always insisted that our officers should be out where they could meet the public, and in a position to handle quickly any situation that might arise, rather than cooped up in private offices where they were hard to reach and out of touch with what was going on.

Giannini's Guiding Policy

SHORTLY after opening for business, a broad study was made of California conditions and the decision reached that the bank could perform its full duty to the people of the state only through a system of branch banking. A. P. Giannini, founder of the bank, therefore set about the job he had laid out for himself, and the one we have all been devoting our attention to ever since: the creation of a state-wide banking organization, capable of meeting the diversified needs of California's industry and agriculture.

That he was right in his judgment with

(*Continued on page* 838)

Bankers' Acceptances—the Real Currency of Foreign Trade

By CHELLIS AUSTIN
President, Seaboard National Bank, New York

More Than a Third of the United States' Foreign Trade in 1926 Was Financed by This Instrument of Credit. American Banks Did Not Adopt It Until 1914. Burden of Financing Is Shifted to the Open Market. How the Acceptance Is Used.

THE bankers' acceptance, newer than the airplane to the average American business man, has been a seasoned instrument of finance in the old world for centuries. Transactions were settled in these bankers' bills at the far-famed Commercial Fairs at Lyons in France, even before Columbus set sail on his voyage of discovery. They were used in England as early as the reign of King James the First.

In the decades that followed these mediæval times, the bankers' acceptance gradually became the accepted currency of trade in the old world, but its adoption by American banks was not sanctioned until Congress gave this country a scientific monetary system with the enactment of the Federal Reserve Act. But, if we were tardy in embracing it, our banks have made good use of it since 1914. Last year more than a third of the total volume of American foreign trade was financed by acceptances. The acceptance business done, if Great Britain be excepted, exceeded that of all the nations in Europe combined.

What the Acceptance Does

THE adoption of the bankers' acceptance in the United States was due to recognition that it is the most suitable credit instrument that has been contrived for the financing of trade shipments, particularly foreign, and the realization that, if this country was to take its rightful place in international business affairs, it would have to use the bankers' bill as one of its important instruments.

To my mind, it represents the most satisfactory and liquid form of credit for the handling of the vast interchange of commodities and services which we call international trade. It greatly facilitates that interchange in that it substitutes the credit of an institution, which is widely and favorably known, for a buyer who is not so well known. Instead of lending its cash, the bank merely lends its credit—and for this credit the bank is paid an acceptance commission. The bank does not advance any funds either to the seller or to the buyer but merely certifies that the bills will be paid when they come due at a future date. It is this certification that makes the seller willing to do business and bridges over that gap in foreign trade between the time that the seller ships the goods and the buyer can use them or dispose of them. At times it is also extended to cover a period of processing or manufacture by the seller or the buyer.

A Clear-Cut Story

A CLEAR, understandable story of how the bankers' acceptance is used to finance a large part of our foreign trade is related in this article. It reveals how American banks, without advancing any cash but merely by lending their credit, make possible that vast interchange of commodities and services we call international trade. Mr. Austin gives a practical presentation of the whole operation—one that is full of enlightenment. The author is president of the American Acceptance Council.

Financing An Import

JUST how the bankers' acceptance shifts the burden of financing a large part of foreign trade from the banks or the resources of the seller to that great group of investors, known as the open market, may be indicated by recounting how a typical import or export deal is handled.

Suppose that an American importer of silk desires to obtain $100,000 worth of this important raw material from Japan. After the selling price and other conditions have been fixed with the exporting company in Yokohama, the American silk importer makes a formal application to his bank, requesting the opening of a credit and giving a concise résumé of the terms that will govern the importation. The bank, if it agrees to extend the accommodation sought, issues a letter of credit in favor of the Japanese exporter for account of the American importer, which recites the willingness of the bank to accept drafts drawn on it by the exporter up to $100,000. This letter of credit is cabled or mailed to the silk exporter in Yokohama. In the event that the credit is cabled, the issuing American bank makes use of its Japanese correspondent in Yokohama in advising the beneficiary of the establishment of the credit.

Thus assured that an American bank of standing assumes responsibility for the payment of the $100,000, the exporter arranges to place the silk aboard an American-bound steamer, and gets a bill-of-lading together with an insurance certificate and necessary consular papers.

The Japanese silk exporter then draws thirty, sixty, ninety or one hundred and twenty day sight drafts on the American buyer's bank for the full amount. In all probability he will draw four drafts of $25,000 each rather than one draft of $100,000 because he knows that the accepted bills will probably be rediscounted in the open market in New York and that amounts of $25,000 are in more favor than amounts such as $100,000. The drafts, with the bill-of-lading and the insurance certificate and consular papers attached, are then taken by the exporter to his bank at Yokohama, either for collection or, if he needs the money at the time the silk is shipped, for discount—that is, his bank will buy the drafts from him, although they are not payable until a considerably later date in New York—his bank giving him the equivalent of $100,000 less the agreed discount, in yens.

Forward Discount Rates

THE Japanese banker knows at what figure the bills of exchange drawn on New York can be turned into cash because he receives quotations regularly from his New York Agency or correspondent naming "forward discount rates" for dollar acceptances—that is, the rates at which the bills can be discounted in the open market when they arrive in New York twenty or thirty days later. Of course, the Japanese banker may sell immediately the bill of exchange through his New York Agency or correspondent so as to establish definitely the rate of discount or sale. Or he may not be in need of funds and may decide to hold it himself for in-

vestment and sale at a later date. If he has sold the draft prior to buying it from the shipper, he will merely forward it on to New York for credit to his account at the rate agreed upon three or four weeks prior to its arrival.

Failing such prior sale, the Japanese bank forwards the drafts, with the documents attached, to its New York Agency or correspondent, with instructions to sell or discount the drafts after they have been accepted by the New York bank, which issued the letter of credit. When the drafts are received by the agency or the New York correspondent bank of the Yokohama institution, they are taken to the New York bank that issued the letter of credit and are stamped "accepted" across the face and signed by one or two authorized officers of that bank—their signatures being affixed under the word "accepted."

In the event that the drafts which we are discussing find their way into the open market, they will do so through the agency of the Japanese bank's correspondent in New York. The New York bank, operating under instructions from the Japanese bank, will sell the accepted bills to the bill brokers in the street at the bid price for prime New York bank bills, the proceeds being credited to the account of the Japanese bank.

The bills have then made their first step in the process incident to their being absorbed in the so-called open market. The next step will be for the buying bill broker to resell the bills at a fractionally higher price to anyone of the several banks, bankers, institutions or individuals whose aggregate buying power makes up the so-called open market.

The London Market

IN London this buying power consists of large public banks, which make use of bankers' bills for the investment of their assets which they wish to have available for quick realization, private bankers, insurance and other institutions and individuals having funds which they desire to make use of in the most secure and liquid form, and the Bank of England, which acts as the reserve market for all bills of this character. The situation in New York is similar to that in London, excepting that due to the comparative newness of the so-called open market, the Federal Reserve Bank has in the past and still does carry probably a larger percentage of these bills and therefore constitutes a larger portion of the open market than is the case in London. However, increasing familiarity upon the part of the American financial public with the desirability of bankers' acceptances as a medium for liquid short time investments is constantly broadening the market for these bills outside of the Federal Reserve bank. This development is a desirable and salutary one and it is to be hoped that the necessity for purchase of these bills by the Federal Reserve bank will continue to decline.

Before the end of the period for which the bills were drawn, the American silk importer places the accepting American bank in funds of $100,000 to meet the maturing bills. When the holder of the acceptance presents it, the bank pays over $100,000 in cash and the transaction is completed. It should be noted however that the risk as to whether or not the American importer will be able to place funds with the accepting bank to meet the bills drawn upon the bank is assumed entirely by the accepting bank. That bank is under absolute and unconditional obligation to meet its bills whether it is placed in funds or not.

It is this feature of the transaction which makes the accepted bill such a satisfactory medium for financing these international exchanges of goods. The seller of the goods and the buyer of the bill under the credit need not worry about the credit standing or financial ability of the importer—the American bank whose credit is undoubted standing between them and any risk of loss.

Thus, it may be noted that when the bill finds its way into the open market, the silk deal has been completed without tying up the capital of either the Japanese silk exporter or the American importer, or even the capital of the banks negotiating the transaction. The burden has been borne by the open discount market. It is not unusual for credits of this nature to be arranged by the foreign exporter—in which case he would have his banker negotiate for him and arrange with the American bank for the credit.

Financing An Export

THE American exporter can use the acceptance just as well, although the transaction, when the initiation of the credit comes from the exporter instead of from the importer, as described above, is reversed.

Suppose that an automobile dealer in Bombay wanted to buy ten American-made cars. That dealer is favorably known to the exporting American automobile company and the American automobile company is willing to ship to the Bombay merchant the cars called for either against documentary sight bills, thirty, sixty, ninety or one hundred and twenty day bills to be accepted by the Bombay merchant. The credit of the Bombay merchant being satisfactory to the American automobile company, the only question which arises then is the way in which the automobile company can most satisfactorily finance the shipment. If the automobile company is in ample funds to carry the bills in its own portfolio, it need not have recourse to his bank for any assistance.

However, if it desires to realize on these collection drafts, it will probably conclude, based upon the then existing discount rates, that it can do so most cheaply by going to its bank in New York and arranging with that bank to permit it to draw a bill upon that bank against delivery to the bank as, underlying collateral, of the bills which it is drawing against the Bombay merchant covering the shipment of cars. In other words, the automobile company simply draws on the New York bank a draft for acceptance by the New York bank, which draft has a term sufficient to permit the New York bank to take the collection drafts covering the automobiles, send them to Bombay, have them accepted and later collect the money, and have it returned to New York prior to the maturity of the overlying draft which its client, the automobile company, has drawn upon it and which it has accepted.

The funds are raised in this transaction through the medium of the open market in precisely the same way that they were raised in the other transaction described above, the only difference being that the New York bank sells its own bill after it has accepted it and credits the proceeds thereof to the account of its exporting client, who drew the bill. Necessarily along with this transaction has gone an undertaking by the automobile company to place the accepting bank in funds prior to the maturity of the overlying bill. The transaction has been arranged upon a basis which contemplates that the payment of the drafts drawn on the Bombay merchant will provide those funds, but the American exporter is obligated to provide them in any event. As far as the open discount market is concerned, however, it knows that the American bank which has accepted the bill that it has purchased will pay without question whether the drafts have been collected or whether the American exporting client has placed the accepting bank in funds or not.

I have recited these two transactions in detail so that the procedure used in financing a typical importation and exportation of goods with an acceptance credit might be shown.

Before the Acceptance Was Authorized Here

BEFORE American banks were allowed to do acceptance financing, there was a cumbersome arrangement for doing the same thing indirectly. The lack of acceptance credit powers was a distinct weakness in our banking structure. It made it impossible for the American importers or exporters to finance their purchases upon as favorable a basis as could the importers or exporters in European countries.

There were three ways by which the American importer could finance his purchases in the days before the American bankers' acceptance. He could pay for the goods by remitting direct to the shipper. To get these funds, he usually had to borrow from a bank on his promissory note. If he could arrange to do so, however, he shifted the burden to the foreign shipper. This meant that the foreign shipper drew a draft on the American house and turned it over to his own banker to be forwarded for collection.

The third way—and the nearest approach to the present method—was that of indirect bankers' acceptance financing. The American importer had his own bank arrange a credit with its London correspondent. The American importer was put to a greater expense than the importers of other countries for the reason that he had to pay his own bank a commission for arranging the

(*Continued on page* 851)

The Council Meeting at Hot Springs

Executive Body Endorses Clearing House Examiner System to be Set Up in Country Districts as Means of Promoting Better Banking. Satisfactory Progress Made by Divisions and Sections of American Bankers Association. Drop in Bank Crimes.

THE consideration of methods for the promotion of good banking and for the better protection of bank depositors featured the sessions of the Executive Council of the American Bankers Association at the Spring Meeting held at Hot Springs, Arkansas, on May 2-5. The clearing house examiner system, to be established in country districts in co-operation with the Comptroller of the Currency and the state banking departments, was formally endorsed by the Council as "one of the most sound and efficient safeguards" for the business of banking.

This was the outstanding action taken with the view to improving banking conditions and reducing bank failures but reports submitted by the heads of divisions, sections and commissions reviewing the activities of organized banking, contained a number of valuable suggestions to make banking better and more profitable. The Economic Policy Commission was authorized to make a study of the fundamental causes of bank failures and to suggest remedies.

Melvin A. Traylor, as President of the American Bankers Association, presided over the sessions of the Executive Council and dispatched the business coming before the governing body charged with shaping the ad interim policies of the Association in an impressive manner. The Spring Meeting was held under unusual conditions due to the flood which inundated much of the surrounding territory. A resolution, voicing the sympathy of the Executive Council for the people who had met with this great misfortune, was passed and, as material evidence of this feeling, the Council authorized a subscription of $10,000 to the Flood Relief Fund.

The Executive Council was given detailed reports as to the activities of the various divisions and sections and these revealed satisfactory progress and forward-looking plans.

National Bank Investments

CHARLES W. CAREY, as President of the National Bank Division, expressed gratification that the McFadden-Pepper bill, which modernizes and liberalizes the National Bank Act, had been enacted into law. Pending the promulgation of rules and regulations by the Comptroller of Currency defining what securities banks may buy and sell as "investment securities," Mr. Carey stated that the Division had counseled member banks to follow a conservative course and refrain from handling any securities which a close construction of the law might hold were improper. Referring to the fact that many national banks are getting powers to start trust departments, he said the Division had refrained from encouraging the installation of trust departments in small banks unless the bank was willing and prepared to equip itself to expertly perform the work committed to it.

Guy W. Bowerman, President of the State Bank Division, reported that the most serious handicap country bankers are laboring under is the absence of adequate profits. By introducing the service charge the small bank may enlarge its income, it was suggested, and by requiring financial statements from all who borrow $500 or more, the bank may reduce its losses.

Savings Conferences

The four regional savings conferences, which were recently held under the auspices of the Savings Bank Division were eminently successful, W. R. Morehouse, President of this Division, told the Executive Council. The interest manifested in all sections demonstrated that banks doing a savings business are preparing to fortify themselves for the increasingly keen competition for the savings of the people. Mr. Morehouse urged the more general adoption by banks of the amortized real estate loans. This will enable banks to play a larger part in the upbuilding of their communities and will bring business to the banks that is now going to the Building and Loan Associations and other agencies, he said. Progress was reported by the Division's committee, which is now working on a set-up that may be adopted by the average bank to make this type of loans to its customers.

Institutions doing a fiduciary business continue to make impressive headway, Judge Edward J. Fox, President of the Trust Company Division, told the Council. He stated that the last mid-winter trust conference in New York had been widely attended and related the plans of the divisions for two regional trust conferences before the next annual convention. Trust companies are promoting cordial relations with the bar and the insurance companies to the mutual benefit of all, Judge Fox said. The Trust Company Division will continue its efforts to bring about the repeal of the Federal Inheritance Tax, he declared, and will petition Congress again at the next session to this end.

Country Bank Examinations

THE proposal, which led to the Executive Council giving its endorsement to the clearing house examiner system plan for country banks, was made by John R. Downing, as President of the Clearing House Section. He declared that the examiner plan had worked successfully in thirty-one cities and that there was no reason why its benefits should not be extended to the small communities. "The best safeguards of sound banking are intelligence and integrity, plus careful supervision," he said. "It is becoming more and more apparent that the extension of Clearing House Association work, including credit bureaus and voluntary clearing house examinations, is the chief reliance in promoting better banking."

Mr. Downing outlined the plan whereby the examiner system could be put into effect in country districts and assured the Council that the idea had met with "the hearty approval of the Comptroller's office" and that those state banking commissioners interviewed "have evinced the liveliest interest in the plan and have promised whole-hearted support."

"If our independent system of banking is to be preserved, the price we will have to pay is vigilance," he said. "If we as bankers—and I am speaking broadly—continue to hold the confidence of the public, we must deserve it. We cannot lightly gloss over the large number of bank failures of this last year and say, 'incompetence,' 'overextension,' 'readjustment,' but we must provide manner and means of preventing bank failures. What we have suggested we know is not a panacea but it is by far the best remedy and, in my opinion, the only one that lies before us."

The cheering news that banks are continuing to make headway in crime reduction was brought to the meeting by James E. Baum, of the Protective Committee. The number of bank holdups dropped from fifty-three to forty-seven during the last six months and "an appreciable reduction" was noted in the number of forgeries, swindles and sneak thefts reported by member banks. The vigilante movement has spread to nine States, Michigan and California having adopted it.

The May issue of the JOURNAL goes to press while the Spring Meeting is in progress, so more adequate reports of the meeting will be given in a future number.

Whose Pictures Should Go On Our Paper Money?

By WILLIAM ATHERTON DU PUY

The Government Finds the Portrait of a Man Is Its Greatest Protection Against the Counterfeiter. The Likenesses of What Presidents Are Most Firmly Fixed in the Public Consciousness? A New Hall of Fame Is Planned for the Federal Currency.

THE Treasury Department has, for years, been studying the hodgepodge of its paper money. It realizes that the design of it is without rhyme or reason and that it should be made over and that an element of order should be introduced into it.

It should be simplified. The Bureau of Engraving and Printing is now producing thirty-nine models of money. That number should be reduced to seven. The cost of production on big runs of fewer models would be less. Four or five millions a year could be saved at the money factory.

The Protecting Portrait

THE experience of a hundred and fifty years has led the government to the conclusion that the portrait of a man on the face of a bill is its greatest protection as it is the hardest item procurable for a counterfeiter to reproduce. It has become the set policy of the government to make such a portrait the dominant feature in the design of its bills. Pictures of men are found on the faces of most though not all the bills.

But the pictures that are on the bills have got there quite by accident. Whenever it has become necessary to design a new note it has usually been left to the artist to whom the assignment happened to fall to determine what should be on it. So it happens that we find on the money such varying faces as that of Washington, an Indian chief, T. A. Hendricks, Daniel Manning, Edward Everett, Michael Hillegas, U. S. Grant, a woodsman, Hugh McCullough, Abraham Lincoln, Thomas Jefferson, John Marshall, Benjamin Franklin, John Jay Knox, and many others. Not many men would have the slightest idea who half of these people are. There is Michael Hillegas, for instance, on the yellow-backed ten-dollar bill. Who knows who Michael was?

Students of currency realize that a considerable purpose could be served by a proper use of portraits on the fronts of the bills. The thing most to be desired is that the man in the street should come to recognize bills of each denomination at a glance and without reference to the number in the corner. If this were brought about the counterfeiter would have more difficulty in "pushing the queer." The note raiser could not make low denomination notes into those of greater value and succeed in passing them.

The experts agree that the first step toward accomplishing this reform is that of assigning a given portrait to each denomination and discarding all others. There should be one portrait for the one-dollar bill, one for the five-dollar bill, one for the ten-dollar bill, and so on. Observe the ten-dollar bills now in circulation to get an idea of the confusion. There are five of them, each bearing a different picture. Nobody knows what to expect of a ten-dollar bill.

There are now eleven denominations of paper money printed. In the course of the simplification of the money, it is admitted that a number of those denominations should be discarded. There are certain denominations that are scarcely used at all. They would never be missed. They should be abandoned. These are the two-dollar bill, the $500 bill, the $5,000 bill and the $10,000 bill. There would be left seven denominations—ones, fives, tens, twenties, fifties, hundreds, and thousands.

With the money thus to be simplified the question arises as to what faces should be used? Who are the seven men in the nation's history who best deserve places on the currency and, at the same time, will best serve the purpose of making the bills readily identified?

Two considerations are borne in mind in measuring candidates. One is that of doing honor to men to whom it is due. The other is selecting faces that will most readily plant themselves in the public consciousness and become associated in the public mind with the denominations for which they stand.

Who Should Go?

A STUDY of this problem in an attempt to work out the proper list of portraits is interesting. First consideration should be given to the portraits already appearing. Impersonal pictures like that of the Indian chief, the woodsman, the buffalo, should go. They are not so easy to fasten in the mind of the user of money as a portrait of a known individual. Then there are such pictures as that of Michael Hillegas on the ten-dollar yellowback. To be sure he was the first treasurer of the United States but few people ever heard of him. There have been more famous men who might take his place. Their faces are better known. The public would learn to recognize them more quickly.

Hillegas, obviously, should go. So should T. A. Hendricks, Daniel Manning, Thomas H. Benton, and others who have little hold on the public consciousness. A dozen of the old portraits should be discarded forthwith.

There appear certain gentlemen in the old list who have better claims to representation. There are, for instance, Benjamin Franklin and John Marshall. One was a statesman and the other a chief justice. They were great men but, it would seem, have no special claim to representation in the financial history of the nation. Their faces, particularly that of Marshall, are not known to the public.

Then there is Alexander Hamilton. He was the first Secretary of the Treasury. He was in fact the creator of the financial system of the government. Historically he deserves recognition in this respect with the best of them. Here again, however, Hamilton's face is not known to the man on the street.

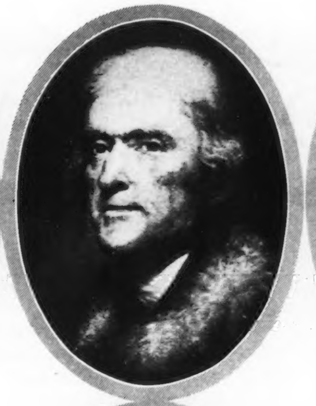
The Best Known Faces

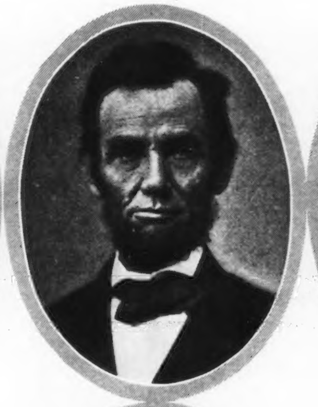
IT begins to appear that the best known faces are those of Presidents. As a general rule the Presidents have been the history makers of the nation. With but seven portraits to select it would probably be wisest to use all Presidents. It would help the public to remember the pictures to begin with the fact that they are all Presidents. The single regret in this connection is that Hamilton has to be eliminated.

If the problem of selecting portraits were to be based merely on the places in history of these Presidents it would have controversial possibilities enough. There is, in addition, the familiarity of the public with the faces and the fact that they should contrast, one with another. Utility, in fact, rather outweighs the fame of the subjects in making the selections.

The four denominations of greatest importance, the four that meet most of the needs of most of the people, are the ones, fives, tens, and twenties. It is with relation to these that the greatest care should be taken.

There is little difference of opinion as to the portrait that should go on the ones. That of Washington is already used on most of them. He was first in the hearts of his countrymen and should appear on the most used bill. He should, of course, be used on it alone. His face has been appearing on a two-dollar silver certificate and a twenty-dollar gold certificate. This was





foolish, led to confusion. It should be stopped. Most of the one-dollar bills now carry the head of Washington. Establishing it as the symbol of the one-dollar bill is one step already taken by the Treasury Department.

It is generally admitted that the place of second importance, a place on the five-dollar bill, should be given to Lincoln. He is second only to Washington in the hall of fame. His face is distinctive. The people know that face. The use of all other faces on five-dollar bills should be eliminated. Lincoln should always appear on the fives and should never appear elsewhere.

The third President who has most firmly gripped the public consciousness, whose picture (thanks to the prominence given it in recurring political campaigns) is well known to the public, is Thomas Jefferson. Washington was a member of the party which was to become the Republican party of today. Lincoln was a member of the same party. Jefferson was the founder of Democracy. That party is entitled to one of the most used bills. The face of Jefferson should appear on the ten-dollar bill. It should appear on no other note.

Progressing up the scale of notes and advancing through presidential history the name of Grant appears as a candidate for a place on the twenty-dollar note. It is a distinctive picture with its hirsute adornment. It is clearly differentiated from the colonial picture of Jefferson which proceeds it. It seems the wisest choice for the twenty.

AFTER Grant, the portrait of Cleveland, a Democrat, presents itself as a logical candidate for a money post. The fifty-dollar bill is to be decorated. Cleveland is looming large as time passes. He is a big figure in a period that was not especially full of subjects calling for hero worship. He meant much to the money history of the nation. His face is distinctive and still well known. There is no candidate left with so good a claim to a money post.

Roosevelt steps forth and bids for one of the two remaining posts. He would like a place on the hundred-dollar bill. He deserves it as a strenuous idol of his people. His face is known to all. It is distinctive and free from any danger of being confused with others. He can be depended upon to plant the idea of the hundred-dollar bill in the public consciousness.

There is but one bill left in this simplified scheme of currency, that of the thousand-dollar denomination. That an approach may be made toward maintaining a balance between the parties it must be assigned to a Democrat. But one name suggests itself—that of Woodrow Wilson. He, too, has a countenance that is distinctive and well established in the public mind. There seems no doubt but that he is the proper selection for a place on the thousand-dollar note.

Thus do we have the list of portraits for the simplified currency that is sometime to be established if order is to take the place of the present chaos, if economy in manufacture is to adjust itself to that which is typical of the time. It is as follows:

One-dollar	Washington
Five-dollar	Lincoln
Ten-dollar	Jefferson
Twenty-dollar	Grant
Fifty-dollar	Cleveland
Hundred-dollar	Roosevelt
Thousand-dollar	Wilson

The fact that there are so many different kinds of bills has grown out of the creation of one type of money and another. There are national bank notes, silver certificates, gold certificates, U. S. Notes, Federal Reserve notes. When each of these types of currency came into being a new set of notes, for many or all denominations, was designed. So has our currency become greatly confused. Of late years the problem of its simplification has been studied time and again and the recommendations are always the same. The scheme here outlined embodies the generally accepted principle. Much detail has of necessity been omitted.

SOME method must be used, of course, of causing these standard bills to still represent the five types of money. It must be known whether a note is a gold certificate, a Federal Reserve note, a national bank note, or what.

This necessity, however, presents no great difficulty. If you will examine any piece of paper money you will notice that on the face of it there is a seal of a distinctive color. This tells what type of money it is. It is quite adequate to identify it as to type. This seal is printed on by a separate process after the bill is otherwise completed. In the case of national bank notes the name of the bank is likewise printed on the face of the note. This can be done on the standard notes at the time the seal is imprinted.

Thus will all notes of a given denomination be exactly alike as far as the casual user is concerned but the seals will furnish the guide at the Treasury when they come back for identification.

The Treasury Department has been trying for a long time to actually put this reform into being. The secretary has the authority to do so. Millions are being wasted every year in money manufacture under the old and unduly complicated scheme. But governmental agencies change with hesitation.

EDITORIAL

Commercial Research and Credit

COMMERCIAL research looms large on the business horizon.

The industry which places itself in a position to profit by the benefits of research in the particular field in which it operates safeguards itself against surprise attacks, and is using one logical means to improve its product and to reduce its manufacturing costs.

The industry which, neither as an individual, nor as one of a class group, concerns itself with the possibilities of commercial research may, like the ships which crossed the Atlantic during the Great War, pursue its course without mishap, but the course is perilous, for all over the world there are research men at work and their findings today may in the light of subsequent events mean the beginning of the end of someone's long established business.

That has been the history of industry and that must continue to be the history of industry, but that fact need not dismay either business or banking, because research is open to all, and with at least the lure, if not the certainty, of improved methods and increased profits. The concern of banking is that its good customers do not neglect the possibilities of this growing adjunct of business.

In another part of this issue of the JOURNAL, there is an article on research suggestive of some of the latent possibilities—and dangers—lurking in the research laboratories.

What about research? is a reasonable question for credit men.

Would Make Better Markets for Us

EUROPE must unite economically under the aegis of the League of Nations for its own salvation, Louis Loucheur, one of the authors of the World Economic Conference told an audience of the Berlin Chamber of Commerce in a recent address.

Productivity in Europe, he declared, is 12 per cent below its pre-war capacity, while in the United States production was 25 per cent above pre-war capacity, hence radical changes in commercial life are necessary or the spirit of American commercial enterprise will crush Europe.

Other European countries must follow Germany in its plan of "rationalization" of industry in the substitution of modern methods for obsolete methods, and besides that there must be British and Pan-European cooperation.

The advancement of science, the advancement of industrial efficiency, the invention and use of labor saving devices sometimes bring about reformations impossible of accomplishment by political or other means.

If European peoples can grasp the thought that the biggest obstacle between them and such prosperity as is ours is their own fear of each other, expressed in tariff ramparts as well as many other obstructions to commercial intercourse then American industrial and commercial efficiency will have achieved its greatest triumph; then too, America also will have a better European market.

The adoption abroad of various American methods to which a large part of our prosperity is attributed is likely to be disappointing if the sphere of influence of these methods must be to a large extent restricted to the borders of the nations adopting them.

If the forty-eight American states were each surrounded by its tariff wall, as are most of the countries of Europe we would have commercial stagnation instead of commercial prosperity; we would have suspicion and ill-will instead of cooperation and good-will between the residents of the various states.

New Market Opportunities

IN a speech in Boston Mr. Jardine, Secretary of Agriculture, discussed the changing appetite of the nation. In recent years more and more people have made themselves acquainted with food values, with the result that instead of merely following in the footsteps of other generations in the matter of diet, or eating what they liked to eat with little thought of its adaptability to their particular needs, they now scan the menu with a scientific eye. The number of persons who have discovered they work with better intelligence and more comfort on a scientifically balanced ration than they do on a near-banquet, increases apace. And because they know their calories and vitamins Americans, according to the Secretary's figures, ate 10 per cent less meat in 1926 than they did in 1907. Even consumption of bread, the staff of life, has, he says, fallen off 15 per cent in fifteen years.

This presents to farming a problem comparable to one that confronts a wide range of manufacturing. Industry constantly must adapt itself to changing habits and styles. More than that many branches of industry spend large sums of money in establishing new styles and new habits.

Before such a situation agriculture itself does not stand helpless as is evidenced by the fact that many Pacific Coast fruit products are firmly established in the eastern markets. If, to illustrate, the East had no apples or potatoes of its own, then the influx of western apples and potatoes would be but a natural market gravitation, but with plenty of these products raised in the East the situation becomes an object lesson in what may be accomplished by a mass movement and the application of business methods and advertising to marketing.

Confronted with a change in style or habit and consequently a changed market, agriculture seems to be in the position of better advantage than is industry because, broadly speaking, much, if not all of the old equipment can be used by the farmer, whereas industry may be compelled to scrap costly factory equipment and assume heavy burdens in the installation of new machinery.

A change in the appetite of the nation need not spell disaster to the farmer; with proper application to the problem before it, agriculture may turn what at first appears to be a disadvantage into an opportunity.

The Farm Exodus

OUR farm population decreased by 649,000 persons last year, says Mr. Jardine, Secretary of Agriculture. The exodus from the farms to the cities will he thinks, continue until there ensues a shortage of food commodities. Then, of course, the prices of farm products will go up and lured by the promise of better compensation for their work, men will again set their faces toward the farms. If, however, production of food falls behind the rate of consumption then a long period must ensue before a balance will be restored.

The Secretary is quoted as saying that the farm population in the New England states was 636,000 persons Jan. 1, 1927, against 651,000 Jan. 1, 1926; Middle Atlantic states, 1,768,000 against 808,000; East North Central, 4,432,000 against 4,425,000; West North Central 4,729,000 against 4,826,000; South Atlantic, 5,393,000 against 5,531,000; East South Central, 4,509,000 against 4,586,000; West South Central, 4,585,000 against 4,727,000; Mountain, 949,000 against 973,000, and Pacific 1,000,000 against 1,014,000.

A few days before the foregoing announcement there appeared in the Agricultural Department's daily digest of press articles and opinions on agriculture, an editorial from "Farm and Fireside" from which we quote:

"Twenty-five per cent of America's workers engage in farming. (Once 90 per cent were farmers.) Another 10 per cent could move off the farms, the less capable of the group, and the 15 per cent remaining with efficient methods could easily feed America and make a profit at it. Eventually 10 per cent will be enough (and a very good living that 10 per cent would make!) and the other workers will be free to produce other of the necessities, conveniences and comforts. If there is a surplus of farm products too many acres are being cultivated and too many people own plows. As production per individual farm worker increases, fewer workers are required."

When it is recalled that the use of labor saving machinery on the farms has long been a factor of growing importance, the exodus may be less ominous than it appears to be at a first glance; and though people are leaving the farms it is also a fact that much work once done on the farms is now performed in the villages and towns—as much for the farmers as for the rest of the population.

Spinning and weaving were among the first to go, but perhaps that feature of farm work is so remote as to be beyond the pale of consideration of the present circumstances. Nevertheless these once were farm kitchen and cottage industries. The development of the packing industries took away another item of work from many farms, a small item to be sure in individual cases, but an item of magnitude for farming as a whole. That, too, is perhaps so remote as to be useless for present consideration. In the canning industry we find a better illustration of farm work taken from a farm to a village and yet the illustration is not perfect because farmers were not canners. But canning is a development by virtue of which farmers and fruit growers have had created for them a big market very close to the farm. The canning factory both saves work for the farmer and takes workers who in other circumstances might be available for farming.

The men from the farms now employed in manufacturing barbed wire fence are doing in a city a work which conserves the farmer's time and his timber. Though he deserted the farm years ago, the expert mechanic who helps to build, or who can repair the farm truck or tractor may be reckoned, without straining the case, as contributing something to the advancement of farm work.

The complexity of our work-day activities are so interwoven and often so subtle in their influences upon one another that to accord to each piece of work its proper valuation is an almost baffling task; yet in the maze of this complicated life there are some trends and movements visible with tolerable clarity. Among them are the trends toward efficiency, toward consolidation of effort, mass production and mass distribution.

In adopting these aids industry has of course outdistanced agriculture, but in the existence of the canning industry, the cooperative marketing movement, the success of some of the marketing associations particularly the Pacific Coast; in the use of the combine grain harvesting machine and a long list of other things, we have abundant proof that methods comparable to those which have made industry prosperous are not impossible of more extended application to agriculture.

A great manufacturing corporation would be out of balance if any large part of its work were done by hand-trade methods and the rest done by mass-production methods. Perhaps agriculture will do better when more recognition is given to the fact that in efficiency of production methods it is out of balance with the rest of industry; that it is laboring under the disadvantage of standards of living raised up to a large extent by the advancement of other industries in efficiency.

Adds to Efficiency and Protection

EACH day there are additions to the list of banks exercising the privilege of group subscriptions for the benefit of officers, directors or both officers and directors. The information given in this magazine each month helps an employee to increase his abilities to serve the bank and its customers. The warnings given in the Protective Section make the vigilance of the bank's staff count for more. To give an officer or a director a year's subscription to this magazine is to give recognition of his aspiration to serve better.

A Common Problem

THE tendency of the rate of return to banks on first class bonds is downward; interest paid by banks on deposits is playing an increasingly large part in bank costs. The tendency of the percentage of overhead costs has been upward.

These three factors present a problem that cannot be evaded, nor go unsolved for long without seriously cutting into the earnings.

The solution which has been found in any one bank should be welcome information in others. The JOURNAL will be glad to have the views of bankers who have found the answer.

The Decline of the "Continental"

(The Journal Cover Illustration)

PAPER money is like men. Sometimes it is good everywhere. Sometimes it loses its good name and will not be accepted for what it purports to be; and as it is true that men who meet with reverses and lose their friends sometimes "come back" so paper money that has lost its backing and is received with caution sometimes is restored to universal good standing.

America has had paper money which fell from grace. Prominent among such issues was the "Continental" emitted under the authority of the Continental Congress.

RESORT to large issues of paper money is almost invariably made as the result of a war emergency. When the American colonies embarked on their struggle for independence they were a nation of 3,000,000 people with a circulating medium of both coin and paper, estimated to be $12,000,000. Without wealth of currency or of munitions of war, or equipment to produce necessary supplies, and without credit abroad, their only recourse was to issue paper money. Thus came the paper money known as "Continentals" in contradistinction to paper money issued by the states, for at that stage the states or colonies were in the ascendency and the national or Federal form of government was only coming into existence.

So the Continental Congress under the pressure of the perilous circumstances surrounding it, issued paper money and also took the second step governments resort to in such extremes. It endeavored by the imposition of drastic penalties to hold up the value of the currency. Any man, it declared, who refused to accept the money at its face value was an outlaw and should be ostracised by his fellow citizens. To give the exact words Congress resolved:

"THAT any person who shall hereafter be so lost to all virtue and regard for his country, as to refuse to receive said bills in payment, or obstruct or discourage the currency or circulation thereof, and shall be duly convicted by the committee of the city, county or district, or in case of appeal from their decision, by the assembly, convention, council or committee of safety of the colony where he shall reside, such person shall be deemed, published and treated as an enemy of his country and precluded from all trade or intercourse with the inhabitants of these Colonies."

This had a salutary effect. Men were convicted under it and suffered imprisonment and some of them regained their freedom by apologizing for what they had done. Thus we find one William Gilliland publicly declaring:

"I, THE SUBSCRIBER, have been so very wicked and abandoned as to speak at sundry times disrespectfully of the Honorable the Continental Congress, and have also endeavored to depreciate their currency, for which detestable conduct I have deservedly been confined to the jail of this county by the committee of said county, but being now fully convinced of the heinousness and horrible tendency of such conduct, do hereby and in the fullest manner most sincerely beg pardon of my justly incensed countrymen, and do promise hereafter never to be guilty of the like, but in all instances to conform to such rules and regulations as may be instituted by that very respectable body, for the preservation of our invaluable but invaded rights and liberties; and do further request that this my acknowledgment be made public, that others may be deterred from following my shameful and wicked practices."

But notwithstanding the rigorous punishment imposed, paper money—both the Continental and that issued by the states—depreciated and fell into contempt as a currency. The total volume of the Continental money issued was $357,476,541 and when in May 1781 "Continentals" by Act of Congress, ceased to circulate as money, and provision was made for refunding, they were bought up by speculators at the rate of 400 for 1 up to 1000 for 1. Hence the term, that once went around in the appraisal of things of no value, "Not worth a Continental."

THIS month's cover illustration is Artist de Maris' conception of an incident in the decline of the "Continental." In it we see the whole story of depreciation. The new boots which the shoemaker has fashioned for his customer represent an investment in material and labor which if paid for in paper money of the time would have been lost, since those from whom the cobbler had to purchase the necessaries of life and of his trade would not in turn accept the bills.

Loan $40,000,000 to Veterans

By REUBEN A. LEWIS, JR.

More Than Seven Thousand Banks Have Made Loans on Adjusted Service Certificates. This New Class of Paper Will Occupy Increasing Important Place in Banks' Portfolios. How a Few Banks Capitalized the Opportunity to Render This Service.

LOANS amounting to more than $40,000,000 have been made by the banks of this country on the security of the Adjusted Service Certificates that were issued to the veterans of the World War. General Frank T. Hines, Director of the Veterans' Bureau, estimates that the total of loans made during the present year on this security will reach $60,000,000.

The first clamor for loans came at the height of the New Year's rush and found the banks, not only struggling to handle the seasonal accumulation of business, but a bit hazy as to what was the right policy to adopt. The loans sought were small—the average certificate, if held to maturity, had a cash value of $1,000 and an immediate loan value of only $88. The bank was strictly limited to 6 per cent interest—so it was clear that the profit to be made on the initial loan would be meager. There was a natural fear of running into governmental "red tape."

There were two practical difficulties. The bank had to be certain that the veteran who applied for the loan was the identical person whose name appeared on the certificate, and that he was mentally capacitated to make the loan. It was evident that handling this type of business would tend to congest the lobby and subject the regular customers to inconvenience or delays. In the southern states the banks did not care to have a battalion of dusky warriors trooping around the banking rooms.

As a rule, however, banks made loans to their own customers, but some drew the line on advances to outsiders. When a number of banks declined to handle these loans, the cry went up that Congress had given the soldiers a "gold-brick bonus" and "tombstone certificates." The banks came in for plenty of unfavorable publicity, but as soon as they became acquainted with the gilt-edge nature of the security, and were reassured by the reasonable policies announced by the Veterans' Bureau, they started to make these loans quite generally. By the end of January, 4813 banks had accepted some of this business. The number swelled to 6097 by the end of February, and April witnessed a further enlargement in the banks. There are now more than 7000 banks that have made loans to veterans, and it appears to be only a question of time before the bulk of national and state banks have these loans on their books.

Acting As a Central Agency

WHILE some of the banks were reluctant to make loans on this new security, a few seized the opportunity for this public service and engaged in operations on a big scale.

Approximately a fourth of all the loans made to veterans during the first quarter of 1927 were arranged by a large national bank in St. Paul, Minn. When it appeared that a great many banks did not care to handle this business, the St. Paul bank advertised that it would not only be glad to make loans to veterans in St. Paul and the vicinity, but that it would be pleased to act as a central agency and accept these loans, without recourse, from any bank. Its officers felt that this course would help deserving veterans, place a large amount of money in circulation in the various communities, enable country bankers, who for one reason or another could not carry the loans, to help the ex-service men and finally enable the bank to build up a special department that promised later to pay good profits. Sight was not lost of the fact that the loan value of these adjusted service certificates increases about 50 per cent every year, and that, with the passing of years, what is now considered a small loan will grow to sizable proportions, the repayment of which is guaranteed by the United States government.

The St. Paul bank launched the service in a big way. It kept the bank open two hours evenings and three hours on Saturday afternoon. Men in twenty-five cages were on hand to take care of the veterans' needs. Five representatives of the bank took applications at the American Legion offices in St. Paul, while later the bank sent its representatives to several of the large cities to work in cooperation with more than twenty Legion posts. More than 3000 banks made use of the St. Paul institution as a central agency, and the volume of loans handled by this single bank ran at times as high as a million dollars a week.

Rented a Vacant Store

WHAT the St. Paul bank did on a national scale, a number of banks achieved in a more restricted way.

It happened that there was a vacant store next to the Bankers Trust Company of Little Rock. Arrangements were made to use the vacant building. A large sign was painted and suspended over the front of the structure, heralding to all that the bank had opened an Adjusted Service Loan Department. Through the newspapers, the bank announced it had established a special department, state-wide in scope, and that it would handle the certificate of any veteran, upon proper identification, whether or not he happened to be a customer of the bank.

"It reminded us of demobilization days at the war-time cantonment at Camp Pike," one of the officers of the bank said, "so great was the crowd that gathered at the bank, seeking money on their service certificates. The first day we handled more than 200 loans, and, through April 2, we had made a total of 3484 loans. While we have endeavored to accommodate the ex-service men in Arkansas first, we have handled certificates for veterans in Tennessee, Mississippi, Missouri, Florida, Texas, Oklahoma, Arizona and in Wisconsin.

"To protect ourselves against any loss growing out of making a loan to a party other than the ex-service man to whom the certificate was originally issued, we require the veteran to sign an affidavit, stating that he is the identical person, and also obtain a guaranty of identification of the veteran by an individual who is known to us. Thus far we have had only one case where an impostor misused a service certificate. We did not suffer a loss because the party identifying the veteran made good the amount of this loan.

"The advertising and good will which we have received from the handling of these certificates cannot be valued in dollars and cents, but we know of many cases where valuable business has been thrown to our institution because of rendering this service. As a mark of appreciation, the Arkansas Department of the American Legion gave us an award for Distinguished Service."

Loans by Baltimore Banks

IN Baltimore two institutions—the Farmers & Merchants National Bank of Baltimore and the Maryland Trust Company—played prominent rôles in making loans to the veterans. There are four army camps and a government arsenal near Baltimore, so there was a particularly keen interest in the banks' treatment of these service certificates.

"While the fear of governmental 'red tape' caused thousands of banks throughout the United States to hestitate in January on what policy they should adopt as to making loans to war veterans on their insurance policies," William H. Gideon, president of the Farmers & Merchants National Bank, said, "we published an advertisement on Jan. 5 advising all veterans that we were prepared to make loans to them. To facilitate the work, and at the same time prevent interference with routine operations of our bank, we decided to make all of the loans at one of our branches. Here we placed ten extra clerks from the main office, with instructions as to procedure.

"In order to identify borrowers who were

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The Future of the Small Town in the Billion Dollar Age

By THOMAS R. PRESTON
First Vice-President, American Bankers Association; President, Hamilton National Bank, Chattanooga, Tenn.

Small Communities That Are Solely Dependent on Agriculture Have Not Shared in Our Unprecedented Prosperity, But Here Is How They Can Check the Passing of Village Institutions and Keep Apace With the Nation. How the Bank Can Do Its Part.

IT is hard for us to realize the rapid changes that have taken place in this country in the past century or even in the past twenty years. Just a few weeks ago the oldest American railroad celebrated its one hundredth anniversary. When this was built, transportation meant the slow sailing vessel and the covered wagon; it now means the swift ocean liner and the fast express. A century hence it may mean something entirely different. A century ago the greatest orator could, at best, be heard by but 10,000 people. Recently the President, by means of the radio, was heard by more than 10,000,000 people. When Napoleon died a century ago it was four and a half months before we heard of his death in the United States. By means of the cable we daily speak to London and other great cities and can get a reply in three minutes.

Banking a century ago was crude and primitive compared to what it is now. It then took weeks to transfer credits from one point to another. Now, through the instrumentality of the Federal Reserve System, millions can be instantly transferred from one end of the country to the other.

In fifteen years this country has gone from a debtor to a creditor nation. Remote sections of the world are in close financial relation to each other, and whether we realize it or not, we are truly a part and parcel of the teeming millions of the earth. We have awakened, as it were, in a new world and must meet these new conditions.

Small Communities Hit

THE year 1926, from a business standpoint, is the wonder year of our age. The high tide of prosperity, however, has not been disseminated throughout all sections. Agriculture has suffered almost everywhere.

Along with the agricultural depression we find relatively a decline in the population of many of the rural sections and of the villages. This decline is not for the best interests of our country; it is not in the end to the advantage of the great centers to have these small communities lose their population and importance.

There are many villages in the United States that have less population than they had twenty years ago. This, with the depression in agriculture, has directly affected the village bank. The small bank, as a rule, has been a neighborhood affair; customers dealt with their own neighbors, and the funds and resources of these institutions were used to build up their own communities. These small banks have been a powerful factor in the growth and development of the United States.

Many believe there are now changes going on in this country which will affect banking quite as much as the changes that have occurred in the past twenty years. So far as my observation goes, no country and no community has ever become great purely from agriculture. Over a long period of time communities which have depended solely upon agriculture have always suffered. In small villages we have not the community activity we had a few years ago. It seems that the old-time country store is passing; the country church is almost a thing of the past; the blacksmith shop has already gone; the crossroads post office has been replaced by rural free delivery, and unless these village activities are strengthened by industrial enterprises, the days of the village bank may also be numbered.

The real remedy for these small communities would be the establishment of industrial enterprises in them. This has been done elsewhere greatly to the advantage of these small towns. Besides, it has been a real aid to agriculture. By increasing the market to the farmer, giving employment to surplus labor, it also has a tendency to lower taxes and raise the standards of living.

The Turn to Industry

A NUMBER of states have already passed from agricultural to industrial states—and with good results. A survey will show that those sections which are not growing are those depending solely upon agriculture. This not only is true now, but has been true at all times.

Henry Grady illustrated the conditions that prevailed in a purely agricultural community in his graphic description of the funeral of a Screvens County, Georgia, farmer. Many doubtless recall it.

"The deceased was one of those poor, 'one-gallus' fellows that had made his community neither better nor worse for having lived in it. The neighbors dug his grave in sight of a great pine forest, yet his coffin was made in Cincinnati. His grave bore evidences of iron ore, yet the pick and shovel were made in Pittsburgh. He was buried at the edge of a great cotton field, yet his clothing was made in Massachusetts. The only thing Georgia furnished was the corpse and the hole in the ground."

Things are different in many sections of the South, as the people are not only producing the raw materials, but are making and consuming products manufactured from them. Some southern states now consume more cotton than they grow.

A few generations ago states like Pennsylvania had identically the same problem the western and southern states now have, and their agricultural situation was greatly improved by having these manufacturing corporations almost everywhere. There is scarcely a small community in that state that is not blest with a manufacturing plant, and in the main their agricultural situation has been immensely profitable.

Small Town Bank Failures

FOR the past six years we have had a great many bank failures. Nearly two-thirds of these were in communities of less than 2500 people, and the average capital of failed banks for 1926—which is no doubt true of other years—was only $34,000. The Commissioner of Banks in one of the great western states made a very illuminating analysis of the situation in his state, where, of more than 1000 banks under his supervision, more than 500 of them were not paying dividends. Over half of these banks have less than $150,000 in deposits, and 10 per cent of them have less than $50,000. One of the great evils, according to him, is that his state has too many banks. His first suggested remedy is to bring about the consolidation of the smaller banks into larger units. This view is shared by many other bank commissioners, and I understand is also in accord with the views of the present Comptroller of the Currency.

To remedy this situation, I would suggest, first, that banks cooperate in strengthening the banking laws wherever needed, especially prohibiting any bank from being organized with a less capital than $25,000; second, that no bank, either state or national, should be organized in any community anywhere that already has ample banking facilities; and, third, I believe the most help-

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The Unforeseen Developments In the Federal Reserve System

By EDMUND PLATT
Vice-Governor of the Federal Reserve Board

Some of Its Most Notable Activities Were Scarcely Thought Of When Congress Passed the Act. Supplying of Reserve Notes Is Largely Automatic. War Led to Unexpected Borrowing by Banks. Demands from Agricultural Districts Relatively Small.

I DO not suppose that any piece of great legislation ever works out in practice exactly as its framers expect. While the Federal Reserve Act has accomplished very much more than its proponents expected—for certainly they had no idea in 1913 that the banks would be called upon to lead in the financing of a great war—it had had some developments that were, I think, not foreseen or at least not expected.

I was a member of Congress and a member of the Committee on Banking and Currency of the House of Representatives when the Act was passed, and was a minor participant in the debates that led to its enactment. As is known, the Act was a compromise between various theories and suggested plans. Under previous Republican administrations a plan had been worked out providing for one central bank. When the Democrats, under President Wilson, came into control they were already strongly committed against this plan, and in order to accomplish anything had to find some way of reconciling their past promises and performances with the establishment of a system which would, nevertheless, create central banking. They endeavored, therefore, to create twelve central banks, providing for coordination through the supervision of a central Federal Reserve Board, appointed by the President of the United States.

Not Foreseen

IN what ways has the Federal Reserve Act worked out in practice differently from what the framers of this important financial legislation anticipated? In this article, Vice-Governor Platt of the Federal Reserve Board reveals the surprising developments. Powers to which great importance was attached have not meant much while a few granted purely as a formal matter have led to some of the Reserve banks' major operations. Here is a real "inside" story.

Control of Currency

THEY apparently expected that this board would exercise direct control over the issue of currency, apart from such indirect control as was given it through approval of rediscount rates over the volume of loans. A good deal of criticism of the Federal Reserve System, particularly of the Federal Reserve Board, was launched after the great decline in prices in 1920 and 1921, based on the assumption that the Federal Reserve Board arbitrarily increases and decreases the issue of Federal Reserve notes. As a matter of fact, Federal Reserve notes are automatically issued at the request of the Federal Reserve banks, without any action whatever on the part of the Federal Reserve Board as a board.

Requisitions come in from the banks to the Board and are countersigned and sent over to the Comptroller of the Currency in a purely formal way, and individual requests are never brought before the Board at its meetings at all. The supplying of Federal Reserve notes by the Reserve banks is largely a matter of meeting a demand for certain denominations, and stocks of the various denominations likely to be most in demand are printed in advance and are either held in Washington, awaiting requests for them, or are held at the Federal Reserve banks to be issued on the authority of the Federal Reserve agents.

The amount of currency in circulation responds to the demands of business, the notes going out from the banks, as, for instance, during the height of the Christmas trade in December, when they always have a large increase, and coming back to the Reserve banks when the demand slackens.

It is the amount of credit outstanding rather than the form which that credit takes that really counts as a factor influencing business and prices. I think I may say that ever since the world-wide collapse of prices, which followed the war and post-war inflation in 1920, the Federal Reserve Board and the managers of the Federal Reserve banks have been alert to discover signs of another inflation and to prevent it, if possible, if found, but control of Federal Reserve note issues, apart from the control of credit by the Federal Reserve banks, has never been a part of the program of either the Board or the banks.

Fixing Re-Discount Rates

IT is apparent from a comparison of the rates of rediscount which prevailed in the first years of the existence of the Federal Reserve banks that the matter of rates has also worked out rather differently from what had been expected.

In seeking to develop Federal Reserve policy, there was not much to go by, except the policy of the Bank of England and the Central banks of Europe, and they were in many respects so different that their precedents were often of not very much service. The early schedules of rates at the Federal Reserve banks showed more variations of rates between the Federal Reserve districts than has prevailed in recent years, and also showed variations in rates as between different classes and maturities of paper in each bank.

The necessity of the war financing led to the maintenance for several years of a lower rate for loans collateraled by government securities, particularly the short term securities, than the rate applying to the rediscounting of commercial paper, a practice that was pretty clearly contrary to the spirit of the Reserve Act. As soon as possible, after 1919 the Board and the Reserve banks sought to correct this condition by raising these rates, and there were criticisms that this change of policy was carried out rather too quickly and had the effect of depressing the price of Liberty Bonds.

Gradually all the distinctions between different classes of paper were done away with so far as rediscounting is concerned, and at the present time the rediscount rates throughout the System are uniform. The tendency in recent years has been to exercise such control of credit as seems advisable by changing the rates at the New York Reserve bank, sometimes with changes also at Boston, Philadelphia, Cleveland and Chicago, without change of rates in the other districts.

Other Practices Not Contemplated

IN the early days of the System there was a certain amount of hostility to the Federal Reserve banks, particularly among the smaller national banks which were compelled to join the System and carry their reserves in the Reserve banks without interest. I remember talking with a banker in a small town in Putnam County, New York, along about in 1915, who told me that while he thought the Federal Reserve System might prove to be a good thing, he had charged off the investment of his bank in the stock of the Federal Reserve Bank of New York, to profit and loss, as he doubted whether that stock would ever pay a dividend.

His bank, he felt sure, would never have any occasion to borrow from the Federal Reserve Bank, as it could obtain better service from its correspondent bank in New York. The war, of course, very speedily changed all that and forced enormous business into the Federal Reserve banks, but it was a business wholly outside of the contemplation of the framers of the Act.

Federal Reserve banks were given authority in the original Federal Reserve Act to act as fiscal agents of the Treasury, to buy government securities and to make loans on the security of government bonds to member banks purely as a formal matter and as much as anything else for the purpose of making the Act constitutional. It was not expected that they would have any occasion to buy government bonds, except as they took them for the purpose of absorbing gradually the circulation of national bank notes, which the Act provided was to be at a rate not to exceed $25,000,000 a year.

The war not only forced enormous amounts of government securities into the Federal Reserve banks used as collateral for loans made to member banks with which they purchased Liberty bonds, but it stopped the contemplated purchase of the old low rate bonds which secured the circulation of national bank notes, and this has not yet been resumed, and I think I may say that there seems to be no apparent intention of resuming it in the near future.

As to Note Retirement

IT is clear that the framers of the Reserve Act expected that the national bank notes would be superseded by Federal Reserve notes, but the Act nevertheless does not provide a mandatory method for doing this. Section 18 provides that any national bank desiring to retire or reduce its circulation may file with the Treasurer of the United States an application to sell bonds for its account at par and accrued interest. The Treasurer is then required to submit a list of such applications quarterly to the Federal Reserve Board, which may require the Federal Reserve banks to buy them up to $25,000,000 in any one year. Then the Secretary of the Treasury may issue 3 per cent securities to the Reserve banks in exchange for the 2 per cents. During the early days of the System, bonds bearing the circulation privilege were at a discount and from time to time offers were made to the Treasurer of the United States. The Federal Reserve banks obtained in this way and by direct purchase $56,256,000, which were exchanged, for the 3 per cent conversion securities went out of existence.

Obviously there is no inducement to offer them when they are at a premium, which has been the case now for a number of years, and with the exception of the few taken by Reserve banks, as above mentioned, the only reduction of national bank note circulation since the establishment of the Federal Reserve System was accomplished in February, 1925, when the Secretary of the Treasury called in and paid some $80,000,000 of 4 per cent bonds. About $75,000,000 of 2 per cent bonds bearing the circulation privilege could be called now—became callable in 1916—but to pay them off would involve a loss of interest to the Treasury. The rest of the 2 per cents become callable in 1930, and it has been said that the Secretary of the Treasury has already given some study to the question of the advisability of calling them.

Use In Agricultural Sections

THE Federal Reserve System, in pursuance of the provisions relating to collections, has developed a most efficient system of collecting checks and has eliminated so-called "exchange" charges throughout the commercial sections of the country, and through the Gold Settlement Fund has eliminated the necessity for constantly shipping gold or currency back and forth across the country. These services are rendered free and employ a good-sized army of people in the Federal Reserve banks. They also entail an expense which was probably beyond anything anticipated and which makes the problem of the support of some of the Federal Reserve banks at times a little difficult.

I think it is pretty clear that the proponents of the Federal Reserve Act never doubted that the Federal Reserve banks located in agricultural districts, where there is always seasonally at least a large demand for money, would have any difficulty in supporting themselves through loans to their member banks, but it is precisely these Federal Reserve banks which do not support themselves by their own independent operations, and I suppose it is no secret that nearly half of the twelve Federal Reserve banks today are principally supported from the proceeds of bills or bankers' acceptances and short term government securities, mostly purchased for them in the New York market by the Federal Reserve Bank of New York and allocated to them somewhat in proportion to their needs.

The loans of the western Federal Reserve banks fluctuate a good deal seasonally and are considerably higher in the fall when the crops are moving than in the winter and spring, when the crops have been sold and before the spring demand starts up; but it may be surprising to know that throughout most of the winter the total bills discounted in each of three of the western Federal Reserve banks have been considerably less than $10,000,000, and at times not much more than $10,000,000 in one of the others. To be more specific, on last March 9 the Federal Reserve Bank of St. Louis had loaned but $10,784,000 to its member banks, the Federal Reserve Bank of Minneapolis but $3,051,000, the Federal Reserve Bank of Kansas City $7,051,000, and the Federal Reserve Bank of Dallas only $2,709,000.

These figures are gradually increasing as the spring demand comes along, and the weekly statement on March 23 showed that St. Louis was loaning $14,998,000, Kansas City $10,178,000, Minneapolis $5,966,000, but Dallas only $3,357,000. The Dallas bank held at that time $25,647,000 of government securities, nearly all certificates of indebtedness or Treasury notes, and $9,114,000 of bills bought in the open market, a total of $34,761,000 of purchased securities as compared with $3,357,000 of loans to banks in its district.

All of which goes to show that it is difficult to create by fiat of law a central bank in a town where there is no central banking business to do.

Loans in Financial Centers

THE assets of the Reserve banks in the financial centers, of course, show a very much larger proportion of loans to purchased paper, thus the Federal Reserve Bank of Philadelphia had on March 23 a total of $19,686,000 of government securities and $12,000,000 of bills against $45,267,000 of loans outstanding.

In New York City, and to some extent in Boston, Philadelphia, Chicago and San Francisco, loans of the Federal Reserve banks fluctuate in accordance with the condition of the money market, with large ups and downs at the quarterly tax payment dates when the Treasury's operations dominate.

The problems in New York are those of a real central bank concerned not only with the rates of interest of the open money market, but with international rates and with the money markets of other great financial centers, such as London, Paris, Berlin and Amsterdam. The officers of the Federal Reserve Bank of New York have been called into consultation and have sometimes been participants in the plans for stabilization of currency in foreign countries, through cooperation with foreign central banks. Rates of interest in the open market in New York are sensitive to world conditions, and when money is higher in London than in New York, as is the case at present, the great New York commercial banks and also some of our great international manufacturing corporations carry increased balances in London, or make investments in the London money market.

At the quarter tax payment dates, March 15, June 15, September 15 and December 15, the Federal Reserve Bank of New York, acting both for itself and as fiscal agent for the Treasury, has a tremendous turnover of business. The dollar value of the turnover in the Federal Reserve Bank of New York on last March 15 was almost two billion dollars, to be more exact, $1,944,000,000, of which considerably more than a billion was for the Treasury Department, in connection with the conversion of the Second Liberty Loan bonds into 3½ per cent notes, and payment of the notes maturing on that date, and also the collection of income taxes. These matters affect also, though in lesser magnitude, the Federal Reserve banks of the other financial centers,

(*Continued on page* 839)

Profits in the Railway Equipment Industry

By D. RICHARD YOUNG

Equipment Trust Certificates, a Prime Medium for Short-Time Investment of Bank Funds. The Three Main Branches of a Well-Concentrated Industry. Earnings of the Companies Manufacturing Equipment. Marked Fluctuations and Reasons Therefor.

BANKERS are interested in the railway equipment industry and in equipment trust certificates principally because these certificates are a prime medium for short-time investment of bank funds, with a better record as to freedom from loss than probably any other kind of security, and because there is now a movement on foot in several states to include equipment trust certificates as legal investments for savings banks and trust funds.

The public, represented by business generally, is interested in the railway equipment industry because of the vast expenditures it makes. Last year the American railroads spent the sum of $1,291,919,172 for "maintenance of equipment," which includes new purchases as well as repair parts—and this huge disbursement is a major factor in keeping up the prosperity of the steel, copper, electrical, rubber, glass and other industries.

Ewing Galloway

Curing throat trouble in a big locomotive—repairing flues in an Erie engine

Three Main Branches

THE railway equipment industry is made up of three main branches—locomotives, cars and signal equipment, etc. These divisions have certain common characteristics dependent on general railroad prosperity or depression, but at the same time they may be influenced by widely divergent factors.

The movement for heavier freight locomotives may occur at a certain time, due to an effort to increase tonnage per train and thus offset the higher wage scale paid to enginemen and trainmen. The buying of more freight cars may signify greater traffic demands or the rehabilitation of rolling stock in an opportune period of slack traffic. It does not always follow that when railroads are in a prosperous state they will purchase more equipment, nor that when they need equipment desperately they will send orders to the car building shops.

The buying of new equipment is very erratic, and to the layman might be illustrated by comparing it to the buying of clothes by an individual. A man who possesses but one suit of clothes has great need of a second or third suit, but he may not have the necessary funds to buy and therefore is not in the market, while the man of ample means, with fifteen or twenty suits, is likely to continue his seasonal purchases regularly. The same is true of the railroads; the line that has insufficient equipment may be in a financial position that does not permit buying the additional facilities so sorely needed, while the prosperous system with plenty of rolling stock will, and frequently does, continue to buy new locomotives and cars out of its surplus.

During the last year there has appeared a disposition on the part of the railroads to use the good earnings toward increasing dividends to the stockholders, many of whom have received only a subnormal return for a decade or more, rather than pile up an undivided profits account, the return on which is problematical and the effect of which is to renew the flow of criticism and ancient nonsense about watered stock from the demagogues that are still left among the country's politicians.

The managements apparently consider it better to raise funds for growing capital requirements by the sale of preferred and common stock, which can be accomplished on a satisfactory basis when a reasonable dividend is paid, rather than to accumulate earnings and declare a stock dividend, which will be misunderstood by many of the so-called intelligent men in business and public life.

The third branch of the industry is signal equipment, principally automatic train control devices, which have been ordered by the Interstate Commerce Commission, and are being tried out and installed on most of the country's railroads, and regarding which some further observations will be made.

The railroad equipment industry as organized today lends itself admirably to such an industrial study as this. It is concentrated, having only two dozen principal companies, in this respect differing from coal mining, for example, where there are several hundred sizable companies. Yet it is not too concentrated, as, for example, the meat packing industry, with about two and a half predominating concerns and the rest spread around small establishments. Most equipment companies publish their balance sheets and income accounts to stockholders, and in the public press, thus differing from that stupendous organization of close corporations discussed in the March issue, the printing and publishing industry.

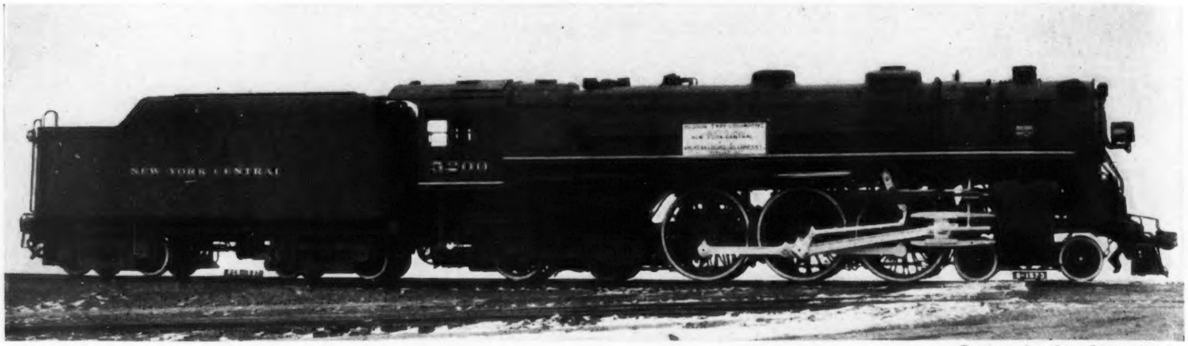
Following are tabulated the earnings for the last two years of the companies manufacturing railroad equipment, which handle the bulk of the business and whose progress is followed closely by the financial world. In addition to the manufacturers of locomotives, passenger and freight cars, and signal apparatus, a few concerns operating tank car lines are included, for the reason that they fit better into the railway equipment group than in any of the other broad classifications adopted; some of them, in fact, make their own equipment; furthermore, many of such concerns issue trust certificates that are offered to our commercial banks for investment. The Pullman Company and its subsidiary, the Pullman Car & Mfg. Corp. are also included in the list.

Earnings Fluctuate Widely

THE irregular character of the railway equipment industry is illustrated by the marked fluctuations in profits, as will be shown in the table that follows.

The three leading locomotive works, American, Baldwin and Lima, had negligible earnings or actual deficits in 1925, which was the poorest period in their line for several years. In 1926 volume of new business increased 20 per cent, and earnings of the three companies jumped several hundred per cent. In every one of the years 1924-25-26, however, the orders amounted to not more than a half or two-thirds of the average over the last ten years.

These figures represent the net profits, based on reports published in the news-



Courtesy American Locomotive Co.

This new "Hudson type" super-locomotive will be used on the Twentieth Century Limited of the New York Central Railroad

papers, available for dividends or to credit to surplus account; i. e., after all expenses, depreciation, interest and provision for taxes have been deducted. Fiscal years end Dec. 31 unless otherwise indicated, and the percentage change from the previous year is calculated to show which companies are going ahead at the faster rate:

Railway Equipment Manufacturers

Net profits—000s omitted

	1925	1926	Per Cent Change
American Brake Shoe & Fdry. Co.	$2,787	$3,029	+ 8.7
American Car & Fdry. Co. ....(1)	6,164	6,103	— 1.0
American Locomotive Co. ....D	843	8,016	.....
American Steel Foundries	4,670	4,676	+ 0.1
Baldwin Locomotive Works	197	5,884	+2890
J. G. Brill Co.........	571	724	+26.8
Chicago Railway Equipment Co.	160	88	—44.4
General Amer. Tank Car Corp.	2,004	2,265	+11.4
General Railway Signal Co.	1,790	3,928	+119
Gould Coupler Co.	499	192	—61.6
Lima Locomotive Works, Inc. ....D	844	1,705	.....
New York Air Brake Co.	1,226	1,594	+30.0
Pettibone-Milliken Co...	278	221	—21.4
Pressed Steel Car Co..	939	D 621	....
Pullman Car & Mfg. Corp. ....(2)	....	6,827	....
Pullman Co. ....(2)	13,772	14,297	+ 3.8
Safety Car Heat. & Light Co.	1,766	1,189	—33.1
Symington Co.	485	418	—13.8
Union Tank Car Co...	2,716	3,032	+11.6
Westinghouse Air Brake Co.	6,966	10,535	+51.3

1 Years ended April 30.
2 Years ended July 21.
D Deficit.

The freight car business last year was also subnormal, new purchases totaling some 70,000 units as compared with 95,596 in 1925 and a ten-year average of 107,302. This restricted buying seems surprising in view of the fact that traffic handled by the railroads last year was the largest in history. It is explained by three factors: (1) The unusually heavy purchases of 1924 and prior years, when the railroads were rehabilitating themselves after Federal control; (2) equipment was kept in better repair and the number of unserviceable cars reduced to a minimum; (3) efficiency per car was increased by heavier loading, faster trains, shorter time in loading and unloading, better coordination of car service among shippers in different localities and seasons, etc.

Passenger car business last year amounted to 2,162 units, which might be considered average.

The totals given below, covering locomotives and car orders, as compiled by *The Railway Age,* confirm the unusual fluctuations in this industry, already illustrated by the table of earnings:

Equipment Orders

	Locomotives	Freight Cars	Passenger Cars
1917	6,142	132,558	1,167
1918	4,888	177,317	157
1919	1,170	29,893	782
1920	2,095	105,669	2,094
1921	820	28,358	492
1922	2,799	181,972	2,488
1923	2,182	103,552	2,482
1924	1,626	149,612	2,679
1925	1,274	95,596	2,317
1926	1,542	70,495	2,162
10-year average.	2,454	107,302	1,682
1927 Three months..	181	26,640	772

The Baldwin Locomotive Works

BALDWIN engines are known wherever railroads operate, and Baldwin stock is known to everyone who has become acquainted with the stock market. The business is one of the oldest in the country, having been originally founded in 1831 by M. W. Baldwin, later operating for many years as Burnham, Williams & Co., a partnership, and becoming the Baldwin Locomotive Works in 1909.

The present company of the same name was incorporated July 1, 1911, to include the Philadelphia Locomotive Works also. Its main plants were formerly located at Philadelphia, but a few years ago the work of removing them to Eddystone, Pa., some twenty-five miles away and situated on the Delaware River, was begun and has proceeded gradually, to be completed about the end of 1928.

The company owns the entire capital stock of the Standard Steel Works Company, which has a plant at Burnham, Pa., for the manufacture of steel tires, steel-tired wheels, rolled and forged steel wheels, steel and iron castings, railway springs, etc.

Its annual report for 1926, recently published, showed a net profit after reserves of $5,884,000, comparing with only $197,000 the year preceding. Last year's income included $1,564,620 deferred profit on foreign sales made in prior years. Gross sales are given as $47,891,669, so that the profit represented 12.3 cents on each dollar of sales.

Invested capital at the beginning of the year consisted of $20,000,000 preferred stock, $20,000,000 common stock and $15,763,833 surplus and undivided profits, making a total of $55,763,833, on which the profit given above would represent a return of 10.55 per cent. After providing for the regular 7 per cent dividend on the cumulative preferred stock, which has been paid without interruption since the organization of the present company, there remained a balance equal to $25.76 per share on the common. The regular $7 was paid, which rate has been in effect since 1919, and the remainder, amounting to $3,083,906, carried to surplus account. This contrasts with 1925, when there was a deficit after payment of dividends amounting to $2,603,487.

Because of the relatively small capitalization of Baldwin, which has been unchanged since incorporation, and the fact that a considerable amount of stock is closely held and only a limited portion available for trading purposes, combined with its leading position in the industry and its irregularity of earnings, the stock has been a favorite among speculators and is subject to wide fluctuations. For example, so far during 1927 it has ranged from a high of 201¾ to a low of 143⅛, and closed in April around 180. Last year it ranged from a high of 167¾ to a low of 92⅞; in 1925 from 146 to 107; in 1924 from 134⅜ to 104⅜; in 1923 from 144¼ to 110½; in 1922 from 142⅜ to 92¾; in 1920-21 from 148½ to 62¼.

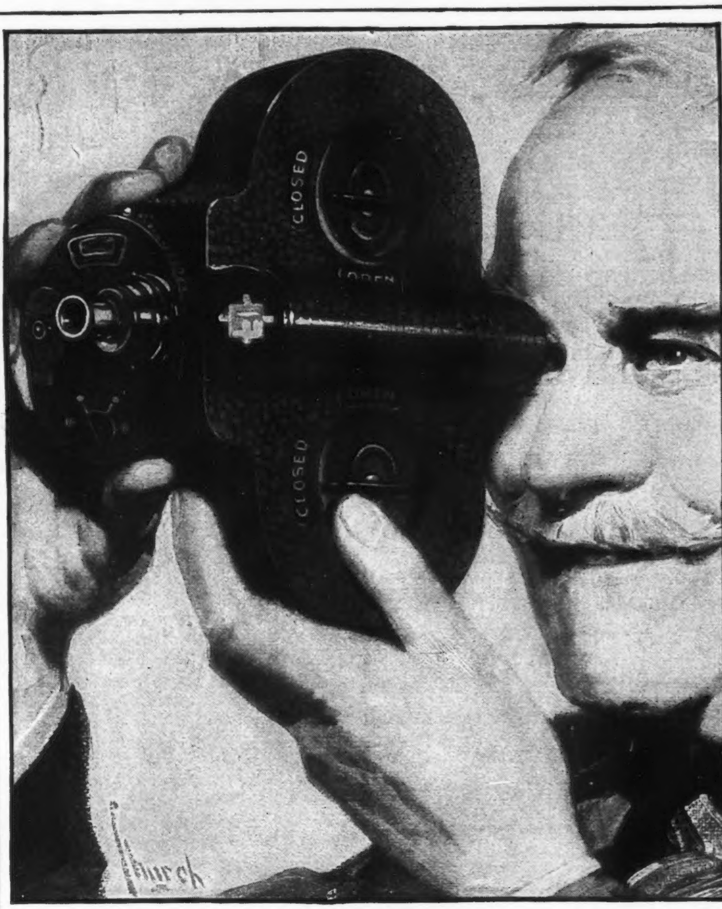
Be it remembered that during these several years, when the swing was never less than 30 points, the dividend remained unchanged at 7 per cent. This demonstrated the futility of attempting to forecast stock market movements by the usual analysis of financial statements, etc., without inside knowledge of the trading position.

The American Locomotive Company

EXCEPTING industrial locomotives, the field is practically divided between Baldwin and the American Locomotive Company, the latter having its plants at Schenectady, N. Y. Its annual report for 1926 showed net profits of $8,015,939, this figure including earnings of the Railway Steel-Spring Company from May 14, 1926, the date when it was acquired through merger and exchange of stock. In 1925 American had a deficit before dividends of $843,321, while Railway Steel-Spring reported a profit of $2,348,000. After paying the usual 7

(Continued on page 841)

Movies of your golf, for instance!



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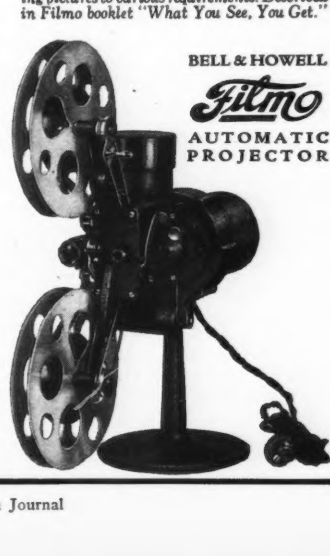

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Banks Can Beat the Crooks

By JAMES E. BAUM
Manager, Protective Department, American Bankers Association

Probably Two-Thirds of the $12,000,000 Direct Loss Inflicted on Banks Annually Can Be Prevented by Reasonable Care. The Same Inventive Genius, Which Has Aided the Holdup Man, Now Offers Protective Devices That Will Enable Banks to Stop Him.

WHEN we consider the wide expansion which banking has enjoyed, and the greater facilities of accommodation which its growth has demanded, it is not surprising to find banks paying a heavier tribute to crime as the years roll by. Money continues to be the strongest magnet to crookdom, and so long as it is concentrated in banks, they must expect and forever safeguard against the hazards to which custodians of cash are exposed.

Anybody who believes that banks will eventually cease to charm criminals forgets the "fence" and the hard bargains he drives before taking stolen securities, diamonds, or other forms of merchandise, all of which are more readily identified than money. Discounts of from 70 to 90 per cent below face values are not uncommon in these deals, and professional criminals are thoroughly alive to the disadvantages of dividing their spoils with these elusive but immodest middlemen of the underworld.

The Modern Crook

IT is no exaggeration to say that modern crime has thrived, not alone upon the rapid development and competition of business, but has also benefited from the use of more businesslike methods and adopting the principles of wider organization. This is especially true of the bank crook who continues to be a leader among the smart set of criminality and is rarely caught without a sinking fund, or "fall money," set aside to anticipate the cost of the best legal talent to defend him after his arrest. Some of them gloat behind the monicker of "Cash and Carry," a title which deserves to become a slogan for bank crooks, for they always strike for 100 per cent cash as their loot, splitting it only among themselves. It follows, then, that so long as banks possess a greater supply of this 100 per cent loot they will remain as headliners among the devious attractions to criminals—professional and potential.

What does hindsight tell us about this fascination which the bankers' principal commodity holds for the criminal element? Also, what preventive measures are they employing to avoid loss in the face of facts which show preventable losses as constituting a heavy portion of the total?

Experience of casualty and surety companies, and the records of the American Bankers Association's Protective Department, indicate that during the past five years the direct loss which crime inflicted upon banking averaged more than $12,000,000 annually. Of this yearly burden the embezzler accounted for not less than $7,000,000, and the forger took another $1,000,000, a two-thirds rate for losses resulting from crimes of opportunity which are preventable with reasonable care and controllable within the banks.

Oddly enough, the amount doled out annually to the latest and most serious menace to bankers, the holdup bandit, is less than $2,000,000, or only one-sixth of the annual crime bill against banking. Losses from bank burglary average but slightly more than 3 per cent, or about $400,000 annually, and the remainder is divided among credit sharps, sneak thieves and swindlers.

Burglary On Wane

PREMIUM rates for insurance against robbery give a simple but illuminating story of fact, and they also furnish a fair, though belated, index to the popular trend in bank robbery. Eight years ago the night burglary hazard in banking was so much greater than daylight robbery that insurance premiums for the latter risk ranged from one-fourth to one-half of the burglary rate, and, until 1918, the holdup coverage was literally "thrown in" the burglary and robbery policies for good measure. Today the reverse is true, and in some states the gap between premiums on the two risks has steadily widened, not alone because holdup losses have mounted, nor from the popular fallacy that yeggmen have deserted their brothers in slow motion robbery to take up banditry, for a good torch man or one expert in the handling of "Dan" (dynamite) makes the best burglar and so long as he is free and inclined to crack a safe, he sticks to burglary. Burglary losses have also dropped in that period.

The same inventive genius which facilitated the bandits' surprise attack and speedy escape with automatic firearms and high-powered motors also devised automatic alarm systems and created torch, drill and explosive proof metals, either laminated or composite—all of which have gone a long way toward making bank burglary unprofitable. Our burglary problem is not entirely solved, but it is a matter of record that only the "soft" safes and vaults are yielding to the burglar's tools. It is also significant that one of every three bank burglaries attempted during the past two years has been either completely frustrated or the resulting loss was from damage alone, and not in money or securities. If experience means anything, science and invention have caught up with the burglar, and many bankers have availed themselves of its products with at least the same care in choosing their equipment for resisting attack as the burglar has prepared for attacking.

Not so with the bankers' defensive measures against daylight holdup. Even the casual reader of the daily press is awake to that fact—and why not bankers? Because of the greater danger to life, is it due to their inclination to rely entirely upon indemnity of financial loss through insurance, the line of least resistance? With the exception of a few states where the vigilantes, town guards or rangers are well organized, the record answers in the affirmative. Barring messenger robberies, nine out of every ten bank holdups are directed against undermanned or unguarded banks, and the great majority of these occur during the luncheon periods in small or outlying communities, isolated and lacking modern means of protection within the bank and oftentimes without the police power outside to match strides with the bandits in their getaway. "To stage the holdup and dodge traffic, the bandits used a stolen light car, which was later abandoned to avoid their identification, and the robbers shifted to a high-powered car a few miles out of town and sped away" —thus reads the stereotyped news items, ending with "there were but two employees in the bank" and the familiar assurance that "the bank's loss was entirely insured."

Holdup Usually Succeeds

AGAINST the bankers' effort in foiling one out of every three burglary attempts, which is nothing to crow about, they fare considerably worse against the bandit, the record showing only one holdup being frustrated out of every seven attacks. Moreover, the average haul in a bank holdup is much greater than in burglary, which is another way of saying that banks with weak vaults or safes have learned to keep a minimum of cash and securities overnight, and those carrying larger amounts are equipped with burglary-proof vaults and modern alarm systems.

In the past few years enough has been written about the types and varying methods of the present-day bandit to avoid repeating much of their modus operandi in this article. With the continuous stream of warnings which bankers receive in the Protective Section of the AMERICAN BANKERS ASSOCIATION JOURNAL, and others sent by State Bankers Associations, they must realize that the bank bandit of today is a specialist, versatile and highly developed in working out the finest details of staging a success-

ful surprise attack. He ranks among the intelligent criminals, who rarely strike simply on an impulse of the moment. Investigations of these crimes and the confessions of their perpetrators give ample proof that they are planned with the utmost care and preparation. Advance scouts are usually detailed to get the "lay" of the bank selected for a raid, and they are chosen—not to take part in the holdup—but for their ability to analyze and report the strong and weak spots in the routine, personnel, alarm equipment and whatever police protection the bank may have.

In some instances these prospectors take weeks to complete their mission, sometimes going so far as opening a small account or renting a safe deposit box—as accomplices of Henry Fernekes, the "midget bandit" did. Fernekes has been in the shadow of the gallows awaiting execution in Chicago; but although his ruse of posing as a prospective safe deposit box renter to examine and chart the vault and banking room may seem novel, it is neither new nor out of date in bank banditry. This more or less sociable form of bank robbery has been used by different gangs at widely scattered points. Banks with only partial protection, or those carrying an abundance of cash where it is easily accessible to the deposit box vault, provide choice targets for this stunt, which is certainly not discouraged by advertising and personal solicitations that invite strangers to inspect such combination vaults. Add to this scheme the pretext of holdup men presenting the credentials of bank examiners just before closing time, and others who camp for days in unused attics or vantage points adjoining the banking room to decide between burglary and a daylight attack after the vault is opened, and we gain some idea of the painstaking persistence of the bank robber of today.

How to Prepare for the Bandit's Arrival

WHAT to do before the bandit's arrival is the most serious crime question now confronting all bankers and business men, and little hope of relief or solution of the problem is offered by alarm systems or other protective devices which depend entirely upon the strength or weaknesses of the human element for their operation. The majority of alarms now installed do not measure up to the needs of the situation because they fail to offset the bandits' well-known advantage of surprise threat which instantly places his victims' lives in the balance, thus rendering them powerless to think of anything short of self-preservation. The professional bandit knows this only too well, and old style, open circuit loud sounding gong alarms hold little or no terror for his kind—and their wire-cutting tools. Nothing short of a counter surprise will stop them, and the only signal systems which have proved dependable are those which are not only silent within the bank when the alarm is sounded; they must also operate regardless of the uncertainties of the human element.

Confusion invariably upsets the best planned holdups, and equipment is now available to give bankers an even chance to stage "an offensive defensive" against these killers of bank officers and employees. There are protective devices now being marketed which meet these requirements, and it is no idle jest to say that knowledge of such equipment registers a wholesome respect for banks thus protected in the minds of bandits. They are too business-like and possess too keen a prison sense of humor to risk chances of defeat with so many other banks offering less resistance against robbery. It is not the policy of the American Bankers Association to approve the products of private commercial enterprise, neither is it my purpose to advertise such materials. Nevertheless, it becomes a matter of plain duty to remind member banks of the favorable results of underwriters' laboratory tests and casualty insurance companies' premium discounts in rating the efficiency of the most modern devices they have approved. None of them has been beaten by bandits.

Bullet Resisting Materials

PERHAPS the most formidable of the bandit repelling bank equipment consists of bullet resisting glass and armor-plate steel with safety deal plates, reinforced counters, gun ports, and bullet resisting wire cloth above the partition and completely inclosing the teller's department. At present there are two companies manufacturing these fixtures, both of which have been approved as standard by the Underwriters' Laboratories, and command discounts of 20 per cent in the premiums for robbery insurance. About sixty mid-western banks are fortified with this type of equipment, which is designed for protection within the bank.

Another system which has withstood rigid testing in the Underwriters' Laboratories is an automatic electrical alarm installation which exhibits all the advantages of the human element with none of its disadvantages. This apparatus consists of patented drawers for the teller's counter or a desk, and these are fitted with handles that are human-like in their action and electrical contacts. This system automatically sounds an alarm at a signal box in the nearest police station or at more convenient locations for emergency response. It is designed to operate silently without endangering bank employees' lives, as the alarm signals automatically without interfering with the bandit's orders to "stick 'em up." Fourteen banks are now equipped with this apparatus, which has also been tested and approved by the Underwriters' Laboratories, and brings the maximum discount of 20 per cent in robbery insurance premiums.

Tear Gas Effective

AMONG the more combative devices which banks are using to beat the bandit, prevent him from shooting and cause his capture, is one that employs a non-toxic form of "tear" gas. This by-product of the World War is prepared in crystals, which are instantly generated into a gaseous state by electrical contacts. When discharged, those in front of the guns and within range of this vapor are made helpless through temporary loss of sight, speech and self-control without causing permanent or serious disability. Although this device depends upon a foot lever or hand control for operation, the gas guns are so connected and distributed that the pressing of any one control will discharge every gun and turn the bandits into weeping weaklings by loosening their tear ducts, blinding them long enough to permit their capture. It is a form of protection which instantly becomes an offensive weapon, and has already proved its capacity for taking away the bandits' advantage of surprise.

The approved type of "tear" gas guns are installed in about 100 banks for holdup prevention, and some 1500 other banks equip their vaults or watchmen with this gas, in guns or "billies," for protection against burglary. The same product is available in protective devices attached to brief cases and hand bags for the use of messengers to supplement other defensive weapons he may carry, or guards.

Several other forms of "tear" gas are available and marketed for protection against burglary or daylight robbery, but the products of only one company have passed the underwriters' tests thus far. On the strength of the Underwriters' Laboratories recommendations, insurance companies grant a discount of ten per cent on the daylight robbery insurance premiums to banks which maintain this protection.

Probably the most economical and simple daylight robbery alarm which has been produced in recent years is the automatic silent alarm made by a service association in Minnesota. It includes a number of call bells installed at other places in the vicinity of the bank. Its operation is controlled by saw-tooth springs, which are electrified and adjusted to accommodate the thickness of three or four currency notes or checks. The tension of the springs is such that when these bills or checks are withdrawn from the money drawer in obedience to the bandit's command, the springs automatically make contacts which sound the alarms. This system also provides switches at other points in the bank, such as the vault, basement or adjoining rooms, where the alarm can be turned on should the robbers succeed in herding employees in the vault or elsewhere. It is simple in operation, and is considered an excellent accessory to speed the response of vigilantes where they are active. When installed with an open circuit, the system is exposed to defeat by wire-cutting, and, largely because of this danger, it has not been approved by the Underwriters' Laboratories and, therefore, has been allowed no discount by the insurance companies.

Sharp Shooting Needed

BUT alarms, of course, are merely an essential part of any serious attempt at holdup prevention, for they alone can only signal for help, and the response must be quick, courageous and sharp shooting—as evidenced by the splendid performance of the bankers' vigilante campaigns in the central and southwestern states. They can only help to facilitate arrests, and adequate police power is one of the two outside forces without which banditry will flourish, the other being more stringent criminal laws and court rules that will keep the criminal caught and placed at a safe distance from law-abiding citizens. If the police power is inadequate, a revival of the vigilante spirit has already proved an effective remedy.

(Continued on page 855)


OF INTEREST TO
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AGENTS: BANKERS TRUST COMPANY
16 WALL ST., NEW YORK

The New Law for Guaranteed Double Liability in South Dakota

By E. S. SPARKS
Dean of the College of Arts and Sciences, University of South Dakota

Guaranty of Bank Deposits Discarded Because It Promoted Reckless Banking. Idea of a Guaranty Fund, Built Up by Bank to Protect Its Own Depositors, Is Retained. Treble Liability Is Practically Imposed. Banking Commission Given More Power.

Triple Liability

A GUARANTY fund, built up by the bank for the protection of its own depositors, is the latest modification of the guaranty idea to be enacted into law. South Dakota has adopted this plan, abandoning the practice of assessing all banks to pay the losses of recklessly run institutions. With the double liability of stockholders continued, the existence of this guaranty fund gives protection to the depositors through a sort of triple liability.

THE legislators of South Dakota in the recent legislative session were confronted with an interesting but difficult banking situation. Two hundred and ninety-seven banks had failed under the operation of the guaranty law; 244 banks had remained closed, and only 325 state banks were operating. The total amount of certificates of indebtedness issued to depositors of failed banks, because of a deficit in the guaranty fund, was over $54,000,000. In 1925, the legislature had repealed the guaranty law, but it was referred to the people in the fall election of 1926 and the legislative repeal was repudiated. The political situation demanded that something be done to protect bank depositors, and there was a practical demand for constructive bank legislation. Repeal or amendment of the guaranty law was inevitable.

Two ideas soon came to be uppermost in the minds of the legislative leaders. First, it was felt that there should be a more practical protection for bank depositors than the guaranty law had furnished, and secondly, there was a general conviction that the State Banking Commission should have more power over the chartering and supervision of banks.

New Guaranty Fund

AS to the protection of depositors, in case of bank failure, the new law simply provides a fund for each bank which will, when paid up, guarantee double liability. The old law of double liability is still retained, so that now the banks have practically treble liability. A compromise between those, who believed the guaranty idea wrong, and those, who wished to retain the guaranty fund, resulted in the modification of the law so as to protect bank creditors to the amount of the capitalization of the bank.

In order to raise this guaranty fund, the assessment basis of the old law was retained. Each state bank must pay yearly one-fourth of 1 per cent of its average daily deposits, until the sums realized from such assessments, together with the accruals and earning thereof, amount to a sum equal to the par value of the capital stock of the bank. The annual assessment must be paid by each bank before the payment of any dividend or any distribution of profits to the stockholders can be made, and the fund which accumulates from the assessments is to remain at all times the property of the stockholders of the respective bank, subject to the uses provided in the act.

All assessments are to be paid to the treasurer of the Guaranty Fund Commission, who deposits the same with the state treasurer. The funds are under the control and direction of the Guaranty Fund Commission. The state treasurer must deposit the funds like other funds in dormant accounts or invest them in securities selected by the bank with the approval of the Guaranty Fund Commission. The earnings from such investment are to be added to the fund until it equals the capital stock of the respective bank, and then the fund is always to be retained to secure and indemnify the creditors of the bank against loss.

In case of bank insolvency or liquidation the guaranty fund of such bank is to be used, if necessary, to help pay the obligations to the creditors of the bank and if there is any left after all obligations have been met, it is to be paid by the Guaranty Fund Commission to the stockholders. This fund is exempt from levy under executions or attachment and from garnishment, and is exempt from taxation.

Under the old guaranty law, the better bankers felt they were simply contributing to reckless banking and that no enduring benefits could come from such a scheme. On the other hand, under the new law the fund always remains the property of the bank, and, after it is paid up, increases the earnings of the bank.

Powers of State Banking Commission Increased

AS to the powers of the State Banking Commission, it was believed by many that the major weakness of the banking system lay in the lack of legal power and supervisory control of the Commission. Heretofore, the Commission did not have the proper legal authority to pass on the qualifications of banking officials, to deny bank charters, and to discipline poor banking practice. In the new law, practically absolute powers in these particulars are given the Commission.

The Depositors' Guaranty Fund Commission was retained as constituted in the old act and its powers were enlarged as follows: (1) To pass upon every application to engage in the banking business in South Dakota and its action to be final; (2) To have full power to pass on the qualifications and fitness of all officers appointed by the board of directors of any bank; (3) To have unlimited power to examine and inquire into the general condition and operation of any bank from time to time, and to liquidate banks or remove officers as it deems necessary, and (4) to have full power and control over the separate guaranty funds of the several banks.

Strengthening Banking Law

THUS, we find that the net results of the recent banking legislation in South Dakota will be to convert the past law guaranteeing total bank deposits into one guaranteeing deposits only to the extent of double liability of the stockholders, and to give the State Banking Commission almost absolute power of control over the banking system.

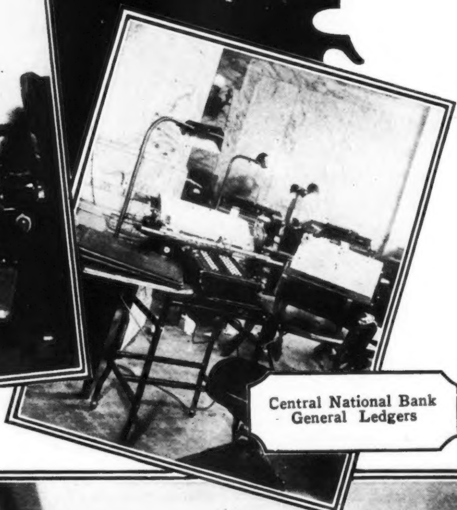
The opinion is prevalent among the better

(Continued on page 848)

Kalamazoo in Cleveland

Union Trust Co., Trust Records

National City Bank of Cleveland Liability Ledgers



Central National Bank General Ledgers

Every bank in the city of Cleveland uses Kalamazoo equipment for one or more of their machine posted records.

All of these use Kalamazoo equipment on their depositors ledgers.

The American Savings Bank
The Bank of Cleveland
The Cleveland Trust Co., and all branches
The Farmers Bank of Cleveland
Guardian Trust Company and branches
Lake Erie Trust Company
Lorain St. Savings and Trust Company
Merchants Trust and Savings Bank
Pearl St. Savings and Trust Company

The Union Trust Company use it for depositors ledgers, Country bank accounts, liability ledgers, corporate trust records. The National City Bank have applied Kalamazoo for their general ledger, Country bank accounts and liability ledgers. The Federal Reserve Bank have their Member Bank Ledgers made in Kalamazoo.

The Central National Bank use it for general ledgers, while the North American Banking and Savings Company employ Kalamazoo for depositors ledgers and savings accounts.

"Kalamazoo" meets fully the requirements of mechanically posted bank records enabling you to obtain the desired results. In case you have not had the opportunity to see this equipment and to learn what it will do to help you, write us today.

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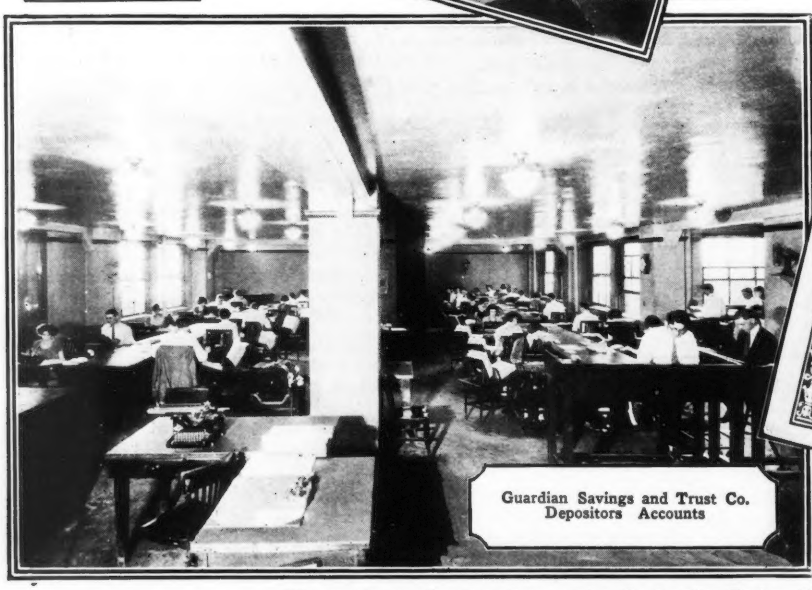


Guardian Savings and Trust Co. Depositors Accounts

The American Spirit

by Gurden Edwards

THERE are those who hold that America has grown wealthy only by intrenching herself in the commercial advantages that came to her from the World War.

There are those, too, who hold that America has lost her soul in the pursuit of wealth.

I wish those who believe these things, particularly those old-world Kiplings who see small good in America, could watch, as I have lately had opportunity to watch, the true spirit of America at work. For shall we not find the real wealth of a nation in the spirit of its people at their toil rather than in the mass of its physical riches?

As a people build their temples so may the spirit of their work be seen. Egypt spent generations of human labor building edifices of unsurpassed glory. The spirit of their work was that of slavery under the lash of tyranny—and the result was vainglory for the kings but bleeding misery for the people.

HOW different is the spirit in which America builds her great temples of business! Such an edifice has just reared its pinnacle above the drab level of houses, most of them symbolical of times and methods that have passed away, that still cover vast expanses of the city.

First came the towering frame of steel visibly growing higher each day. Story by story, ton upon ton of accurately machined beams slipped each into its mathematically predestined place, swung unerringly by great derricks on filament-like steel cables. They raised masses weighing tons five hundred feet through the air—and then lowered them by eighths of inches until the pre-drilled rivet channels united in perfect register.

Day by day the supply of steel arrived—only that which was needed for the day's construction, and no more, machined and drilled and ready to click into place. There was no cut-and-try here—no delays in making this, that or the other piece take a forced fit—only the expert glance of a competent foreman at a blue-print—a brief accurate indication of the numbered unit next required—the smooth teamwork of the crew of steelworkers—and the mathematical formula of the master design rapidly crystallized into the staunch reality of the steel framework.

THEN came the pouring of the concrete floors into the mold formed by the framework—day after day of smooth, coordinated teamwork by the concrete crew, following story by story the placing of the steel beams by only a few hours, flowing into the

topmost steel height almost to the reverberating tune of the last rivet being driven home.

Then came the encasing side walls of brick and stone, rising on four sides of the structure at once, steadily and evenly like a climbing shadow, as the perfected teamwork of the masonry crews went forward in coordinated unison, again reaching the topmost height only a few days behind the pouring of the final concrete floor.

Teamwork—Teamwork—Teamwork—that is the Song of the Building!

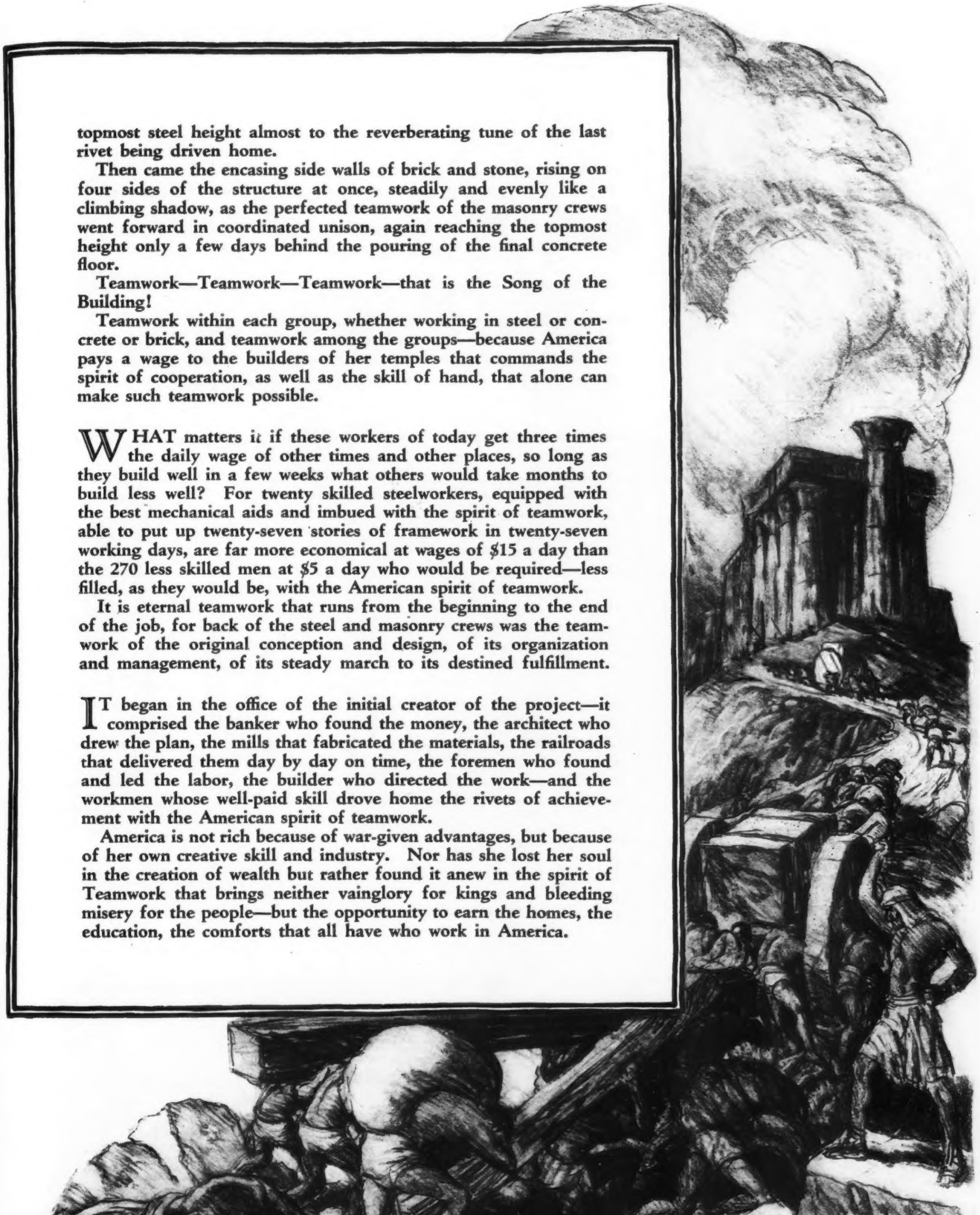
Teamwork within each group, whether working in steel or concrete or brick, and teamwork among the groups—because America pays a wage to the builders of her temples that commands the spirit of cooperation, as well as the skill of hand, that alone can make such teamwork possible.

WHAT matters it if these workers of today get three times the daily wage of other times and other places, so long as they build well in a few weeks what others would take months to build less well? For twenty skilled steelworkers, equipped with the best mechanical aids and imbued with the spirit of teamwork, able to put up twenty-seven stories of framework in twenty-seven working days, are far more economical at wages of $15 a day than the 270 less skilled men at $5 a day who would be required—less filled, as they would be, with the American spirit of teamwork.

It is eternal teamwork that runs from the beginning to the end of the job, for back of the steel and masonry crews was the teamwork of the original conception and design, of its organization and management, of its steady march to its destined fulfillment.

IT began in the office of the initial creator of the project—it comprised the banker who found the money, the architect who drew the plan, the mills that fabricated the materials, the railroads that delivered them day by day on time, the foremen who found and led the labor, the builder who directed the work—and the workmen whose well-paid skill drove home the rivets of achievement with the American spirit of teamwork.

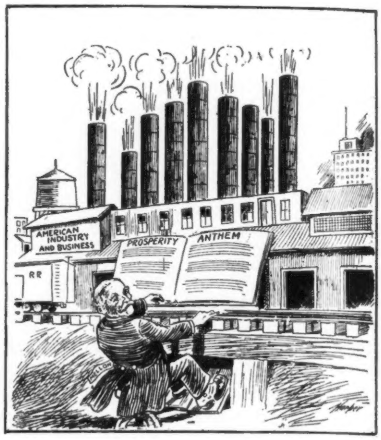
America is not rich because of war-given advantages, but because of her own creative skill and industry. Nor has she lost her soul in the creation of wealth but rather found it anew in the spirit of Teamwork that brings neither vainglory for kings and bleeding misery for the people—but the opportunity to earn the homes, the education, the comforts that all have who work in America.



As Cartoonists View the Passing Show

New Prospector Takes the Trail.—Cargill in the Emporia Gazette

Hardly A Safe Place To Leave Laundry.—Hall in the Bangor Daily Commercial



Notes of Optimism.—Harper in the Birmingham Age-Herald

Who Put It There?—Reynolds in the New Orleans Item

When the Levees Break.—Kirby in the New York World

T. P.: "Good-by, And If I Never See You Again It'll Be Soon Enough."—Duffy in the Baltimore Sun

Protecting Mexico From American Capital.—Orr in the Chicago Tribune

This Treasure Island Sounds Like Fiction, Too.—Brown in the New York Herald Tribune

It Won't Take Many More Strikes To Wreck That Machine.—Orr in the Chicago Tribune

What the Iron Hand of Fascismo Has Achieved in Italy

By HOWARD T. LEWIS
Graduate School of Business Administration, Harvard University

Mussolini Creates the Corporate State, Where Society Is On a Union Basis. Broad National Policy to Increase Italy's Self-Sufficiency. Main Planks of Financial Program Include Gradual Revaluation of Lire, Currency Reduction and Stronger Banks.

TO the average American Fascismo in Italy is almost entirely a political movement. That it has an economic policy would doubtless be conceded, though exactly what that policy might be, beyond some reference to the debt settlement, would be stated only in the most general terms. This is unfortunate, for with all of its political implications, the program is essentially an economic and social one.

True, a complete separation between the political and economic phases is impossible, for in the last analysis the Fascist state is one great institution for the accomplishment of certain very definite ends—objectives that are first economic and secondly social. However, it is not with the political that we are primarily concerned, save only insofar as it is related to the economic. Unfortunately, too, we must here confine our attention to mere description, since any critical evaluation of the program would carry us far beyond the necessarily imposed limitations of space. Perhaps, after all, the question of whether or not the ideals—and of the ends chosen to realize those ideals—are right or wrong, is one which only the future can answer.

The Rise of Facismo

IT is needless to describe the conditions that brought Fascismo into power. It is enough to remind ourselves that at the conclusion of the war Italy was disorganized in the same way and for the same reasons as other nations. The loss in productive man-power was very heavy; indebtedness, both domestic and foreign, was great; trade barriers of one sort and another promptly appeared to interfere with the renewal of international business; internal conditions were disrupted. In a sense Italy's difficulties were more serious than those of some of the other great powers, for in a peculiar way her economic welfare was bound up with the prosperity of other nations. In order to secure the basic necessities of business, she was compelled to find a market for products that were in a large way essentially luxuries. And long ago economists pointed out that that nation gains most in international trade which sells necessities and imports luxuries. Hence, Italy's dependence upon the economic buying power of other countries was unusually great. In addition to this—a condition that rendered the situation peculiarly acute—these tremendous economic problems were presented at a time

Il Duce

when those in charge of Italian state affairs appeared woefully weak and incapable of energetically meeting the grave social and economic issues that presented themselves.

Thus, when the Fascisti came into control, they urged that there were three great problems. One was that of so organizing the productive forces of the nation that they might be most effective; a second was that of developing a broad national economic policy toward which these productive powers might be directed; and a third was that of establishing financial stability. To these three problems, then, Italy directed her attention.

The first problem—logically, if not chronologically—was that of organization. In whatever program was adopted, it was deemed essential that there be a minimum of interference and a maximum of coordination. It was on this ground that all opposition was quelled. "We have no time for strikes and none for political bickerings." The argument was that Italy could assume her rightful place in the world only when all the productive forces of the Kingdom were welded into one integral whole, functioning in the interests of all. Individual likes and preferences must at all times be subordinated to the welfare of the body politic—by force, if persuasion be not effective. Early in 1922 the Fascist syndicates (unions) were united into a general confederation. The object was to form an organization synonymous in extent with the Italian state and including all citizens of both sexes and of all types of labor, both manual and intellectual. The Fascist state, therefore, becomes not merely a political unit, but an organism through which all producers unite to create the largest possible volume of goods and services in the interests of all.

Society on a Union Basis

THE fundamental idea rests on the principle that every class of society is essential—each has its proper place and should perform its separate function. As society advances, the classes become more and more numerous—not, as many socialists maintain, gradually forming but two great classes. Therefore, it becomes clear that progress cannot come through class war or class struggle—at least not in the orthodox sense. In other words, society needs to be reorganized on a union basis, the unions exercising both economic and juridical functions. Furthermore, it is imperative to an understanding of the whole to recall that these "unions" are not, as in the United States, merely unions of employed workmen, but exist among employees and employers alike, among business men and agricultural groups as well as among manufacturing interests. In other words, the nation, even to school children and university students, is organized. "Every Italian must be a producer, and every producer is presumed to belong to his local syndicate."

On Jan. 1 of this year Mussolini said, "The year which is just beginning will be of special interest. The year 1926 witnessed the creation by law of the Corporate State. In 1927 it will begin to function as an organ for protecting the interests of producers and for representing them, first at the periphery, and later at the center." The law to which reference was made was that of April 6, 1926. By it juridical status was conferred on all syndicates. It created labor courts for judging disputes not settled by direct negotiations. Compulsory arbitration—the prohibition of strikes and lockouts—exists. All agreements are binding upon all employers and employees, and the syndicates are civilly liable for enforcing the decisions. The locals are organized into communal, district, provincial, regional, inter-regional and national groups. In addition three great national confederations are proposed. The whole is under the direct surveillance of the Minister of Corporations, a post now held by the Premier. Only Fascist organizations are allowed. Since August of last year the work of organiz-

The port of Genoa is teeming with shipping as Italy takes her place as the fourth largest merchant maritime power

ing these national associations has been pushed vigorously.

Finally, to complete the picture, it should be added that for quite some time now it has been proposed to make even political representation based, not solely on residence alone, but on occupation as well. One may safely say, therefore, that probably nowhere in the world has there been undertaken such an experiment as this program, viewed as a whole.

A Self-Sufficient Italy

A SECOND problem was there of developing a broad national policy in pursuance of which this newly created organization might function. In a sense this is the crux of the whole effort—to attain it, the Corporate State was created, and without it no program for financial improvement could hope to be successful.

Fundamentally, the difficulties to be faced are those arising from a steadily increasing population, the lessened demand for Italian goods following the war, the unfortunate dependence of Italy upon foreign countries for many of the basic necessities of industry, and the changes wrought by the newly aroused aspirations of younger nations. To meet these problems it was felt that only concerted action, based on developing to the utmost those natural resources which Italy does possess, of strengthening her credit facilities, of improving her lines of communication both internal and foreign, coupled with rigid economy at home, could produce the desired results.

Of the details of this economic battle little can be said here, fundamental though it is. The "battle of the grain" is now in its second year, seeking to render Italy, as nearly as can be, independent of foreign supplies of wheat. The use of machinery in agriculture is increasing, as is the utilization of fertilizers. Synthetic nitrates are being produced, especially in plants located near sources of hydroelectric power, in order that imported coal may not be necessary. Extensions of agricultural credit through such institutions as the Bank of Naples and the Bank of Sicily are being made, and the opening up of "hundreds of miles" of branch aqueducts for irrigation purposes are indicative of the efforts made. Nor is the effort confined to agriculture. The encouragement of the artificial silk industry is substantial. The merchant marine is now the fourth largest in the world, with more ships on the ways. Port facilities are being improved. Power resources are being developed. Food control is still effective, and price regulation is operative in many directions.

Indeed, the whole economic program is directed toward increasing Italy's self-sufficiency. Now economic self-sufficiency is always a relative thing, and no nation in modern times can ever expect to secure complete economic independence. It is doubtful if it is wise. Doubtless there are phases of the Italian program that time will prove should never have been attempted. But a nation can scarcely be blamed for making the most of such resources as it has at its command, and of seeking to strengthen its general economic position.

The Financial Program

IN the long run the success of the third phase of the Italian program is dependent upon the success of the second, for financial stability ultimately depends upon the underlying economic condition of a country. In practice, however, a country cannot take up its problems one at a time and work each through to a solution before attacking another. So, chronologically, financial reform and economic rehabilitation must be brought along together.

The main outlines of the Italian financial program are simple, barring the matter of the debt settlement, which is, for the time being at least, a settled issue. In August, 1926, Mussolini outlined the planks in this financial platform at Pesaro—a platform since reaffirmed by the Council of Ministers at its February meeting. Briefly they may be said to be: Gradual revaluation of the lire; progressive currency reduction, beginning with the notes issued on behalf of the Treasury; the strengthening of the gold reserves; the maintenance of a budgetary surplus.

The lire has, since its rise last September, fluctuated comparatively little, such changes as have occurred being upward. Artificial stabilization has been consistently rejected in the belief that real stability can "only result, not from laws and decrees, but from economic and financial efficiency as revealed by the infallible index of the balance of international payments." This rise has naturally had its effect upon business conditions, unemployment, credit, stock values, etc. A further rise in value would probably not be welcomed by Italian business.

The budget has been balanced. On June 30, 1922, there was a deficit of 15,760,000,000 lire. This deficit was steadily reduced until, on June 30, 1925, there was a surplus of 417,000,000 lire. On March 1 of this year there was an "actual surplus of 237,000,000 lire, or 111,000,000 in excess of the estimated surplus for the first eight months of the current financial year. It would have reached 737,000,000 lire but for the fact that 333,000,000 (being part of the 500,000,000 destined for that purpose) has been used for the reduction of state circulation, and 167,000,000 allocated toward railway construction, which was in the past dealt with in separate accounts." What the government has accomplished may be seen from the fact that the internal debt was reduced by nearly 5,000,000 lire from June 30 to Sept. 30 of last year. Early this year the Littorio loan was floated by popular subscription—3,150,000,000 lire being subscribed by, roughly, 3,000,000 persons. There were two objects—one that of consolidating the floating debt, which was considered to be in a dangerous condition, and the other of enabling the Bank of Italy to use the money for productive purposes in commerce and industry without the necessity of adding to the notes in circulation.

Reducing the Currency

PROGRESS has been made in this direction of reducing the currency.

The determination of the government was expressed in a series of measures enacted last September:

(1) The $90,000,000, net product of the loan obtained from the Morgan Bank in November, 1925, was transferred to the Bank of Italy, which wrote off a credit of 2,500,000,000 paper lire standing in its name for notes issued on account of the state, said gold valuta being placed to the

(*Continued on page* 837)

A Few Unusual Rules in a Well Run Bank

The Youngest Officer Is Always Called on First When Loans Are Discussed. Whenever There Is Any Doubt as to Repayment of a Loan, It Is Promptly Charged Off. The Examiner Is Invited to "Tell the Worst" About the Bank to the Directors.

THERE is a bank president in one of the larger cities in the middle west, who has made what is generally described as a notable success. If his name were mentioned, it would be agreed that he is one of the best known bankers in this country. While he has taken an active part in public affairs and in the advancement of his profession, his bank has not suffered because of his outside activities —if steadily mounting deposits, substantial dividends for his stockholders and a strong financial condition may be regarded as outward evidence of inward strength.

If there is one personal trait that stands out, it is his knowledge of psychology. He is a keen judge of human nature—and he has endeavored to capitalize this in the running of his bank. Not long ago a small group sat around a table and the conversation drifted to a discussion of unusual methods followed by bank heads to encourage the younger men to do constructive thinking, to keep the bank in a sound, liquid condition and otherwise how to deserve and achieve the reputation of guiding a well-run bank.

"I DON'T suppose that it would be possible for anyone to frame a full set of rules that would apply in all banks," he said, "but there are a few that have worked out quite satisfactorily in our bank.

"One is that, in the daily officers' meeting where we consider granting new lines of credit, the renewal of loans and other matters of this kind, the younger are called on first. I tell them that I want their candid opinions and that they need have no fear of expressing their own convictions. Even if they advance an idea or venture an opinion that is not regarded as sound, they are assured that they will not incur the penalty of drawing sarcastic criticism from one of their seniors. Sarcasm is something that I will not tolerate because I have observed many instances where an able but sensitive young banker has been crushed by a ruthlessly sarcastic remark of a senior. If any officer thinks the views advanced by another are not sound or that there are any weaknesses in his judgment, he is always at liberty to point these out—but I insist that it be done in good spirit and in a friendly way. By encouraging the younger men to think deeply about credits and to analyze all of the factors that enter into the extension of loans, we develop bankers who are capable of assuming growing responsibilities. By having their judgments reviewed in a friendly way by their more seasoned seniors, we thus gain the benefit of their years of experience and prevent losses, which might have been sustained but for the wisdom of more mature counsel.

"There is a corollary to this rule. There is no room for mental reservations in our bank. If an officer has voted in favor of anything and I later learn that he has gone around saying guardedly that he 'didn't oppose it because the others seem to favor it.' or is backfiring on the action taken by some other such excuse, he is a marked man. There is nothing worse for the *esprit de corps* of a bank than to have a grumbling dissenter, who is not willing to express his own honest judgment when a matter is up for consideration, but who reserves his criticism for a post mortem occasion."

"I like to know the worst about my bank —which accounts for another practice that doubtless will come as a surprise to many bankers," he continued.

"When a young man or young woman in this bank shows sufficient ability and interest to warrant a belief in his loyalty and service to the institution, he is invited to become a stockholder. This profit sharing makes for better banking and better bank workers. Recently, when an opportunity for consolidation had to be discussed and voted upon, it was found that the control of the stock was held by the officers and employees of the bank. It is the belief of those in charge that this sort of democratization makes for greater loyalty, develops ability, and insures enthusiastic service.

"WHENEVER the bank examiners are in our bank and there is a meeting of the board of directors, I always invite the chief examiner to attend the meeting. Without making any qualifications, I urge him to tell the directors the worst things he has found out about us. I suggest that he discuss any loan that we ought to be criticized for making, ask him to tell us if we are using any obsolete or out-of-date methods and literally prod him to find fault with us.

"As I am responsible for the administration of the bank, this practice lets the directors know that nothing is being kept from them. When the examiner states that he finds the affairs of the bank in good order, they know that the management is running the bank in an approved way. The supervisory authorities are impressed with our desire to keep everything in the best of condition and this promotes a spirit of helpful cooperation, because the examiners realize that all of us are seeking the same end: a strong and safe bank.

"ANOTHER rule that we observe is to charge off any loan as soon as it becomes of doubtful value.

"We always beat the bank examiner to charging off a loss. Just as soon as the repayment of a loan becomes at all doubtful, it is marked off. This action keeps the bank clean. It also prevents the bank from paying taxes on paper that later may turn out to be worthless. While the exercise of discretion and the adoption of conservative methods will tend to keep the ratio of losses below the average, it appears to be inevitable that the best run banks will suffer a loss occasionally. When there is a 50-50 chance of a loan resulting in a loss, we charge it off. If it should develop later to be good, it is duly listed as a recovery and a tax is accordingly paid. You do not mind paying a tax on a recovery but you hate to be penalized doubly by paying taxes on a bad loan.

"The strong points of this system are that the bank does not pay taxes that are not justified and the bank does not lay itself open to criticism in carrying paper as a worthwhile asset when it is in reality of a doubtful value. In some cases—paradoxical as it may seem—the bank examiners have noted that we seemed to be a little too willing to charge off loans. But when we explained how we felt about doubtful paper, they were satisfied that this was the best attitude to take. Our surplus is considerably more than our capital, so it may be observed that the rule works out satisfactorily in a practical way.

"WE make a rule of following the advertising of our customers because, if we can detect any unhealthy tendencies at their incipiency, we can keep our borrowers from getting in a bad condition. But, every now and then, if bankers' experiences are not unlike mine, they will find that their own preconceived ideas must be altered.

"Not long ago, the advertisement of a large retail clothier, who banked with us, announced that his store would sell clothing to men on the so-called ten-pay-plan. As this was selling consumption goods on the installment plan, it did not look good to us. I asked the president over to the bank and told him plainly that I did not like it. He asked me to withhold judgment until he could marshal figures to prove that, while it might seem to be bad business to sell men's suits on the installment plan, in actual practice it had been found that the clothing was paid for more promptly than when it was sold on an open account credit. In due time, he demonstrated that by spreading the payments over a period of ten weeks, the store is paid for the suit of clothes on an average of four weeks

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What Foreign Competition Is Doing to Agriculture

By GEORGE B. L. ARNER
United States Department of Agriculture

Why Various Farm Products Have Lost Their Hold on Foreign Markets. How Canada, the Argentine, Australia and New Zealand Have Supplanted Us. When Butter Came Over the Tariff Wall From Six Countries. However, U. S. Prospects Still Good.

SINCE the first ship was loaded with tobacco in the James River over 300 years ago, American farmers have been interested in foreign markets for their surplus products.

Tobacco was almost the only agricultural export during the Colonial period, but after the invention of the cotton gin in 1793, cotton soon became even more important than tobacco as an export commodity. Other farm products were gradually added to our list of exports, but it was not until the middle of the Nineteenth Century that grains and other food products began to be important factors in our export trade. The rapid industrial development of Great Britain and Western Europe drew the people of these countries from the farms to the cities, while at the same time improved transportation both on land and sea made possible the greatest migration in history, which in one generation brought under cultivation the Mississippi Valley and the Great Plains. A surplus of farm products greater than any nation had ever known before was produced at the same time that the European market was being created. Exports of farm products from the United States doubled in volume from 1866 to 1871 and again between 1871 and 1879, and still again between 1879 and 1898. Grains, live cattle, meats and dairy products were the exports of the new West. They were sold abroad at prices which often covered no more than labor costs and transportation and handling charges. Agriculture on old lands in Western Europe and even Eastern America could not compete with the new West and the drift from the country to the city was accelerated and the demand for food products from the West increased still further.

Farm Exports Decline

BUT with the turn of the century American agricultural exports began to decline. First butter and cheese, then cattle and beef lost their hold on foreign markets. Then came the short wheat crop of 1904 which was followed by the smallest wheat exports in thirty-three years. The six-year average of wheat exports from the crops of 1897 to 1902, inclusive, was 213,000,000 bushels. For the next eleven seasons the average exports were only 110,000,000 bushels. The World War brought a revival of exports of all farm products, which, however, touched the high level of 1898 in only one year, namely 1919. Since 1919 exports of farm products have again declined to a point but slightly above the low level of the five years just preceding the war.

Cause of Declining Exports

THIS decline may be explained partly by the increase in our own population with a consequent increased domestic demand, but the war emergency proved that the farms of America could still supply the same volume of export products as in 1898 and at the same time keep the home market supplied. The primary cause of declining exports is foreign competition. With the end of the century the frontier passed beyond the boundaries of the United States, and in the next quarter century the Canadian Northwest, Argentina and Australia repeated the history of our Great Plains from 1875 to 1900. Canada soon exceeded the United States in wheat exports and in two recent years Argentina has exported more wheat than the United States. Argentina and Australia have eliminated the United States from foreign markets for beef. Canada, then New Zealand, drove us from foreign markets for butter and cheese. Argentina captured and held European markets for corn. For bacon, the British market has turned from the United States to Denmark and Canada. Of the major commodities in our old export trade we have retained a firm grip only on cotton, tobacco and lard.

Our exports of these three products dominate the world markets, but we have no monopoly even here. Egyptian and Peruvian long staple cotton sells on our own markets, and India is an important factor wherever cheap short staple cotton is used. Brazil, Argentina and several African countries have recently increased cotton production and are exporting to Europe. American tobacco must meet the competition of tobacco from many parts of the world with the countries of the Near East, notably Bulgaria and Greece, even taking the lead from the United States in many Continental markets. Our lard from cornbelt hogs appears to be quite secure from direct competition, but indirectly its market is limited by the increasing use of vegetable oil substitutes in European countries.

While our great export products are meeting the most severe competition in foreign markets, other farm products are facing keen foreign competition at home. Domestic beet sugar and Louisiana cane supply together only about 20 per cent of our sugar consumption. Another 25 per cent comes from our non-contiguous possessions, but the dominant factor in the American sugar market is imported sugar from Cuba, which constitutes 55 per cent of our supply. Without tariff protection it is doubtful if sugar could be produced at all in continental United States.

Half Our Supplies of Wool

HALF of our supplies of wool are imported nothwithstanding the tariff protection which our domestic wool enjoys. Australia and Argentina are our great sources of supply for clothing and combing wool, while our carpet wool comes from the Far and Near East. We import perhaps a third of our cattle hides chiefly from Argentina, Canada and Colombia; half of our sheep and lamb skins from Australia, New Zealand and Argentina; and nearly our whole supply of goat and kid skins are imported, chiefly from British India and China. Argentina and Canada send us half of the linseed we consume. Other farm products are on the border line, with the bulk of our supply produced on our own farms but with prices always limited by potential and sometimes actual competition from abroad. In this class fall butter, cheese, eggs, beef, mutton and some fruits and vegetables. Many of these commodities are both imported and exported. Butter is regularly exported to Cuba, Mexico and other countries to the south, also across the border into some sections of Canada. Overseas trade in butter depends entirely on current price differentials. Occasionally it becomes profitable to export butter to Great Britain, but more often the American price is above the British price. There is, however, no considerable importation under these conditions except border shipments from Canada unless the price difference exceeds the amount of the twelve-cent tariff plus the ocean freight.

Butter Came in From Many Countries

IN November, 1926, for the first time since the tariff was increased from eight cents to twelve cents, the price of ninety-two score

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New York Life Insurance Company Building, to be erected where Madison Square Garden stood

Cass Gilbert, Architect

Another Triumph *for* Indiana Limestone

The Nation's Building Stone

REPLACING Madison Square Garden, a landmark famous in New York City for fifty years, will be this magnificent new home of the New York Life Insurance Company, one of the greatest architectural undertakings of modern times.

This structure will occupy the entire block bounded by Madison and Fourth Avenues, 27th and 26th Streets. The building will be 33 stories high, will rise 610 feet, will contain 925,000 square feet of floor space, and, according to published reports, will cost from $15,000,000 to $20,000,000.

The choice of Variegated Indiana Limestone for the entire exterior of this great building affirms again the verdict of the building world that for permanence and beauty no building material equals "*The* Nation's Building Stone."

The Indiana Limestone Company, a consolidation of the 24 companies embracing the oldest and largest quarry properties in the Indiana Limestone district, is financially strong and well organized and was able to guarantee the New York Life Insurance Company a service in connection with the delivery of the stone for this building that will permit the extremely rapid construction desired

INDIANA LIMESTONE COMPANY

General Offices: BEDFORD, INDIANA *Executive Offices:* TRIBUNE TOWER, CHICAGO

Printed Figures Prevent Losses in Savings Departments

By S. C. THORNING
Manager of Savings, First National Bank, Kansas City, Mo.

There Are Many Weaknesses in the Pen and Ink System Which Expose the Banks to the Danger of Loss Through Error or Fraud. Most of These May Be Eliminated Through the Use of the Printed Figure System. Expenses Also Reduced.

THE problem of reorganizing savings departments confronts many of us. Pen and ink systems have been found to be obsolete and need to make way for more modern equipment. Many of us are now using a new machine designed to eliminate the dangers and defects of pen and ink methods.

The weaknesses of the pen and ink method are many. I present here only a few of the more common. Deposits and withdrawals are frequently posted to the wrong accounts. A deposit from John Green on account number 5678 is entered in the passbook by the teller. The deposit slip shows the correct amount deposited and the correct account number. An error is made by the bookkeeper in posting the deposit to account number 5679 instead of account number 5678.

Frequently, in the rush of a day's business, the amount of deposit and balance is hastily scrawled or inaccurately put on the passbook by hand. The balance extended after posting a $10 deposit to the passbook on Nov. 17, 1926, appears to read $185. The correct balance is $85. The error in the balance is, however, carried forward with each subsequent posting, and is not discovered until later. A dispute with the customer will, no doubt, result.

An account showing a deposit of $10 and a balance of $10 can easily be changed. The passbook may be made, by a dishonest customer, to read $40 deposit and $40 balance. In like manner, the same deposit can be raised by putting another figure in front of the correct amount. By adding the figure one (1) in front of $10, the passbook can be changed to read $110 deposited and $110 balance. All pen and ink books can easily be raised in this manner.

Weaknesses of Pen and Ink System

TEMPTATION is always in the way of the savings teller, which explains why many bank defalcations occur in savings departments. If a teller's debts are pressing, if he is in danger of losing his home, or likely to have his car reclaimed by the finance corporation, what is there to prevent him from destroying a deposit ticket and keeping the money? It is an easy matter for a teller to satisfy a depositor by making the correct entry in the passbook. Then, with the money in his pocket and the deposit slip destroyed, neither the bookkeeper nor the auditor has any knowledge of the deposit. The result is the transaction is in no way shown on the bank's records. The common practice is for the teller to hold up an item only for a single day. This is run through the next day, and another item is held up. Tellers have been known to continue this for years without getting caught. Neither the bank nor the customer suspect anything, for even if the item is referred to later on, the slight difference in the date of entry is not sufficient to arouse suspicion.

Tellers have been known to raise withdrawal tickets. A $100 withdrawal ticket was changed to $1,100, and the $1,000 was taken by the teller. The customer's book showed a withdrawal of $100, but the bank's records were reduced $1,100. The bank is unable to know what is actually written in the customer's book unless the bank auditor, personally, audits each book and reaudits it each time an entry is made, and this is impossible. The tellers know their customers and their practices much better than does the banker. Tellers know when a customer is to leave the city for an extended period. They know the accounts that have been inactive for years and not likely to be used for many years to come. These are the accounts they manipulate and use to their own advantage.

Picture a bank's position when a teller goes wrong. The news gets into the papers and all customers are aware of the theft. The way is easy, then, for some of the customers to make their own entries and claim they represent actual deposits. It might, perhaps, be impossible to gage the exact extent of the defalcation, and, of course, the customer's statement would have to be accepted, even by the courts, against that made by one who stands convicted of dishonesty.

Ask for All the Pass Books?

WHEN a dishonest employee is found, how is the bank to determine to what extent it has been defrauded? What is to be done? Send out a notice requesting that all passbooks be mailed in for auditing purposes? If this were done, in most cases books would not be mailed in, customers would come down on the run to take their money out. To the public, the request for a passbook means that something has gone wrong on the inside of the bank.

Regularly we read of how the "trusted" employee has gone wrong. News of shortages does not always get into the papers; in fact, we hear of only a small percentage of them. Bankers wisely cover them up, to escape unfavorable publicity. A banker may say: "We have been doing business for fifty years and never have had a loss." How does he know that he has never had a loss? He has not had equipment that would tell. He may get by for years, but some time he is apt to have a loss that will cause much grief and the loss of a great deal of money. "We have a bank auditor, whose duty it is to see that things are right." What use is an auditor in such cases? The teller has things arranged so that the auditor can audit only what he (the teller) wants him to audit. "We have special bookkeepers to do the posting onto the ledger cards." It is important to note here that the bookkeepers have no definite knowledge of how the transactions actually occurred at the windows. Bookkeepers handle only figures furnished by the tellers.

I know of a case where a bookkeeper went wrong and credited a confederate's account with an amount that was never deposited. The next day the confederate withdrew the money. It was impossible to convict the bookkeeper. He claimed an error had been made, and although it cost him his position, what cared he for that position? He, undoubtedly, was ready to leave anyway.

The pen and ink method offers no protection to a customer when a third person makes the deposit, because the entry can be made in the book by the third person. Occasionally we find a customer has made his own entry and claims it was made by the bank. This is done to satisfy another member of the family after the money has been used for other purposes. The person making the change may die without confessing. Then what happens? The bank has a difficult time trying to convince the customer that the deposit was never made.

Advantages of the Printed Figure System

THE printed figure system reduces the human element to a minimum. The many operations automatically done greatly lessen chances for error. The machine pro-

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Inventions Strengthen Grain Paper

By C. B. SHERMAN

Cleaning, Inspection and Grading of Grain Have Been Almost Revolutionized by Inventions Made by Government Workers and Dedicated to Public Use. Grading on Basis of "a Look" Ended. Bank Loans Based on Grain Security Are Made Safer.

ALL men know that the planned and presented work of our national Department of Agriculture, supported by the taxes of the people, is designed to increase the wealth of many industries and the wealth of the nation. But few men realize that, aside from the ability, energy and zeal of the trained staff of workers, there is found in many of the individual workers an inventive genius which alone has aided in saving millions for the people.

Take the inventions during recent years that relate to one commodity, and that the world commodity of grain. Grain cleaning, inspection and grading in the United States have been almost revolutionized by inventions made by members of the grain investigations staff of the Department, now in general use all over our country, and in every case patented and dedicated to the people of the United States for their use without the payment of any royalties.

Without the use of these inventions and methods it would be practically impossible to inspect and grade grain, rice and flax accurately, and it is now generally recognized that the stability of our great grain industry and the vast system of financing so vital to it, rest to an extent on the grading and inspection system.

Financing begins before the grain is harvested and is necessary until the crop has been distributed and is in the hands of the consumer. Much of this aid is given by bankers, hence their interest in anything that will tend to make grain paper strictly first-class.

Without weights, uniform grades and inspection, grain marketing and grain financing could not be carried on as they are today, for weight, grades and inspection take quality and quantity into account and they are fundamental factors in the use of grain as loan collateral.

Through the provisions of the United States grain standards act, administered by the United States Department of Agriculture, correct inspection of grain shipped in interstate commerce throughout the United States under a uniform system of standards, and reliable certification as to quality and condition of grain, is assured. Protection as to methods, certificates, etc., have been carefully worked out and are in daily practice. Most bankers now insist that grain inspection certificates accepted by them should be issued under the United States grain standards act.

On large grain exchanges of the country, dealings in grain are on the basis of cash grain and on the basis of futures. Certain of the better grades of grain are known as contract grades. In the case of future trading, for instance, if a man buys 10,000 bushels of wheat for December delivery, it is understood between the buyer and seller that only certain specified grades may be tendered on this contract. In such a case the certificate issued under the grain standards act covering the grade of grain is of great importance in the financial end of the transaction.

In some markets only grade No. 1 is deliverable on future contracts without discount. In other markets, grades No. 1 and No. 2 are deliverable without discount. In most markets No. 3 is deliverable at a discount. This varies with the class of grain moving and the particular market involved. Grades below No. 3 are not deliverable. Thus the importance of proper inspection of grain from the standpoint of stored grain as collateral is obvious. With warehouse receipts giving evidence of proper inspection, as collateral, many bankers loan money from 80 to 90 per cent of the face value of the warehouse receipt on the stored grain.

Since inspection certificates are as much a part of commercial paper covering a loan on grain by bankers as are bills of lading, certificates of weight and warehouse receipts, it is of interest to bankers that every precaution be taken to secure representative samples for inspection and that every improvement possible be made in methods and results of inspection and grading. The inventions of the workers of the Department of Agriculture all tend to make more accurate the details of methods of sampling and grading grain, hence they have great influence in securing satisfactory results.

Inventions Aid Accuracy

GENERALLY speaking, they have made it possible so to grade grain as to secure confidence on the part of the farmers in the accuracy of the grade of the grain which they ship to the terminal markets, and confidence on the part of bankers who finance the industry and confidence on the part of both the domestic and foreign buyers in the kind of grain that is going to be shipped to them when they purchase grain by grade. This confidence did not prevail before these devices were available for accurate grading, and this confidence on the part of the buyer, and especially the foreign buyer, has made him willing to pay a higher price for the grain than he otherwise would.

Beginning with grain on the farm, a public service patent was recently granted on an aspirator, developed by E. N. Bates, for cleaning grain at the threshing machine. Based on reliable figures, it has been conservatively estimated that clean wheat would save the wheat region more than $10,000,000 a year—and the wheat region has no millions to spare. The aspirator is designed especially to remove foreign material and smut spores from the grain on the farm and smut is wheat's greatest enemy all over the United States. Smut spores are not removed by ordinary grain cleaners. Aspirators have passed the experimental stage and are now working in the wheat fields in increasing numbers.

Another patented appliance, invented by J. H. Cox, removes certain weed seeds from grain and rice which are not readily removed by the ordinary cleaning devices.

Reaching the markets, we find a quick method for the determination of moisture content in grain and other substances developed in the Department around an improved apparatus designed by Dr. J. W. T. Duvel and E. Brown. This method, which is known in the trade as the Brown-Duvel method, has completely changed the handling and grading of grain in all important grain markets. Its great advantage is that moisture determinations are made on the whole grain, so that there is no loss of water from the grinding of samples, and much time is saved. Without this device, the grading of grain on a moisture percentage basis, as now provided for in the United States standards for grain, would be practically impossible.

A Grain Sampler

E. G. BOERNER has devised a grain sampler for accurately splitting samples of grain for analysis. This accuracy is essential to correct grading for the old method of looking at a sample and assigning the grade merely on the basis of the "look" is a thing of the past. The Federal standards for grain specify for each grade maximum limits for all of the factors which show undesirable qualities. In practical inspection and grading, the various tests are of necessity made on separate portions of the sample and to split the original large-sized sample into small portions for analyzing and testing purposes is hardly possible without the use of the Boerner sampler, as this device is known in the trade.

An additional apparatus and method devised and adopted as official in connection with Federal standards for grain involves a weight per bushel tester invented by Mr. Boerner.

The "test weight" of grain is one of the governing factors in assigning grades to grain and in the case of wheat it is the principal grading factor. This test was formerly made by use of various devices and methods, no two of which would give uni-

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Condition of Business

Favorable and Unfavorable Major Factors Found in the May Business Situation. Floods in the Mississippi River Section Will Cause a Loss Estimated at $1,000,000,000. Output of Steel Industry and Building Industry at New High Levels.

THE month of May finds the major factors in the business situation divided as to favorable and unfavorable, with some elements not yet sufficiently developed to admit classification. The question of chief interest is whether our state of prosperity will be maintained, and the day-to-day indices of bank clearings, railroad car loadings and retail sales all confirm an enormous volume of trade going on. It will be of importance, therefore, to examine the list of trends that seem unfavorable and to observe what progress they may make during the near future toward undermining the present satisfactory condition.

The steel industry, long regarded as one of the best barometers, reached in March the largest output for any month in history, according to the final statistics recently published. This represented a 20 per cent gain over the curtailed operations in January, but during April plant schedules were again reduced and the outlook is for lighter business through the summer. Prices show a sagging tendency and average approximately 4 per cent under a year ago.

The building industry also has the distinction of establishing in March a new high record for all time. The upward turn came after two months of relatively low contract volume—two months in which building investors, along with other business men, were exceedingly cautious about making forward commitments. Both January and February had smaller contract volumes than the corresponding months of last year. As a consequence, the first quarter of 1927 shows a loss of 5 per cent compared with the first quarter of 1926. The estimated national total for the quarter just closed is $1,513,000,000; for the first quarter of 1926, $1,595,000,000; for the first quarter of 1925, $1,264,000,000. The record to date suggests the probability that this year's total volume will not reach the 1926 mark, $6,870,000,000, although it may exceed 1925, the next highest year.

Automobile Output Increases but Future is Uncertain

ARRIVAL of real spring weather is acting as a tonic to motorists and prospective motorists. This is well illustrated by the increase in the demand for automobiles announced by both dealers and manufacturers this last month. Orders have been and are being received in sufficient numbers to justify the belief that the real buying season is about to climb to a high point. Although the industry will not admit it, there is a distinct uneasiness regarding the plans of William Durant and what his announced drive will develop into. This, with the plans of Ford still unannounced, has unquestionably proved a business drawback in the automobile industry.

This spring is no different from others of recent years so far as the public demand for cars is concerned, but prospective buyers are "looking them over" more carefully than ever before. Then, too, the question of what Ford is going to do, probably in the near future, has kept thousands from buying, preferring to wait before ordering. United States financiers are said to be behind the plan of the Austin Motor Company of England to enter the American field of manufacture this year. The car mentioned is the Austin Seven, 75-inch wheel base car with an all-over length of 110 inches and standard equipment comprising about everything a motorist could wish.

Notwithstanding further price cuts and an apparent decline in production, the petroleum industry has not attained stability as yet. While crude prices are 40 to 50 per cent below last year's high levels, weakness in gasoline persists, and further reductions are in sight in most sections. The slight decline in crude output recently has mainly reflected the handicap of excessive rainfall and of bad roads in the producing sections. Nevertheless, Seminole output is still about 300,000 barrels daily, and under better weather conditions might jump to 400,000 barrels. The output for the country as a whole is holding around 2,480,000 barrels daily as compared with 1,950,000 last year. The season of heavy consumption is close at hand, but unless production is curbed, prices will continue weak during what should be the most profitable season for the industry. Earnings in the first half of the year will clearly fall sharply under those of a year ago, and we see nothing in sight at present to indicate other than a very slow improvement in the situation later in the year.

Abstention of members of the United Mine Workers from their labors in the soft coal fields has now lasted more than a month, and the coal market becomes steadily weaker. The widespread suffering and industrial unsettlement predicted by some observers at the beginning of April are still ahead, if anywhere. There is reason to believe that operators in the non-union fields, and even some of those raising coal in the traditionally union areas would produce substantially more than their present output if they were able to sell it without making further price concessions.

It is conceivable that all the shrinkage in total production which has taken place since April 1 would have occurred if no strike has been called; it is a certainty that the abnormal output of the first quarter of 1927 would not have continued. This is evident from the unprecedented stocks of coal above ground, nearly 100,000,000 tons, with which the month opened. So confident are the large consumers of coal of adequate production for months to come that they are drawing upon their reserves for a portion of their current requirements. The last Congress failed to enact legislation conferring emergency powers upon the President in event of a fuel shortage, and when miners enough to provide the country with fuel are willing to work for the wages offered, the case is hardly one for emergency weapons.

Business Failures Show an Increase

COMMERCIAL mortality in the United States in the first quarter of 1927 showed a considerable increase, with a total of 6643 failures involving liabilities of $156,121,853, according to R. G. Dun & Co. The number of defaults is 9.2 per cent above that for the first quarter of 1926, and has been exceeded only in the first quarters of 1922 and 1915, which were years of depression. In considering present figures, however, some allowance should be made for the larger number of firms and individuals now in business. The record of indebtedness for the quarter shows a rise of almost 44 per cent over the same quarter of 1926.

Banking suspensions in the United States in the first quarter of this year exceeded the totals for the corresponding period in the two immediately preceding years both in number and in amount. According to the Dun tabulation, there were 174 suspensions, with liabilities of $65,801,527. The record for the first quarter of 1926, with 94 suspensions for $25,893,778, was comparatively favorable, while in 1925 the number was 144 and the indebtedness $43,925,548. In the first quarter of 1924 the number was 265 and the liabilities exceeded $100,000,000.

A comparison of banking suspensions for the first quarter of the last three years, by sections, shows the following:

	1925	1926	1927
New England	3	—	—
Middle Atlantic	3	—	1
South Atlantic	27	7	22
South Central	28	14	41
Central East	4	5	18
Central West	58	62	71
Western	17	5	9
Pacific	4	1	12
United States	144	94	174

Commodity Prices Continue Decline

THE downward trend of wholesale prices which began in the late summer and fall of 1926 continued through March, according to information collected in repre-

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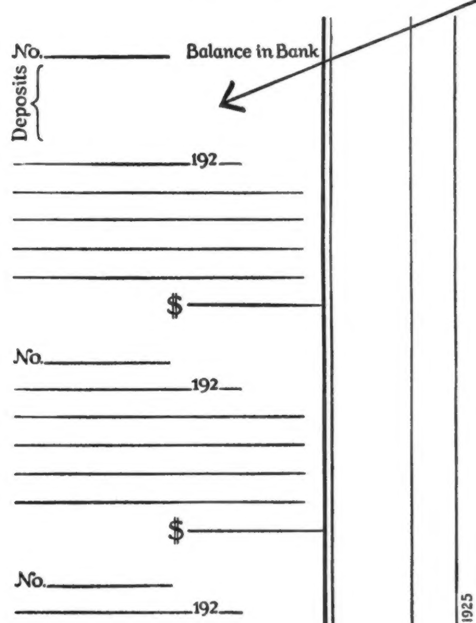
The Luthy Check Stub

Simple Convenient Labor-Saving

This check stub has been gotten up for the double purpose of keeping in the check book, in the simplest and most convenient manner, and with the least possible labor, the original record of the check data, and a brief auxiliary bank account to guard against overdrafts.



Reduced Size
Adaptable to any number of Checks on the Page

The latter is accomplished (1st), by opening up in the favorite check data arrangement of the common, plain stub, (immediately below the uppermost No-of-check line on the page), a space for entering deposits; and (2nd), by so adjusting the signs, lines and spacing as automatically to set all the balances, deposits and totals in their logical positions in the same money column;—both of which differ from all other stubs. This perfects the arrangement and so simplifies and facilitates the process that not an avoidable computation or figure is made and it excels all other stubs.

As the stub adds such bank account arrangement to the check data arrangement, it meets both requirements and will relieve banks of having to provide check books with other than this one kind of stubs.

Further: this stub will greatly facilitate the making out of income tax returns to individuals not keeping a regular set of books, if one will deposit all his receipts in the bank at the time received and will separate each item of income and indicate its date and source in the deposit space; for it will then be an easy matter, at the end of the year, to run through the year's stubs and pick out and classify its items of income. So to deposit all one's receipts in the bank makes the stub a complete and convenient income record, it is conducive to safety and thrift, and it benefits both such depositor and the bank.

Check book printers (or banks) can obtain from the undersigned the right to make this stub. The charge is small compared with the advantages. Banks can safely order check books with this stub and try it. Depositors will appreciate such improved check book.

The Stub Has No Equal

"This is the best form we have ever seen"
(From a large printer)

Chas. T. Luthy, Peoria, Ill.
914 Sanford St.

sentative markets by the Bureau of Labor Statistics of the United States Department of Labor. The bureau's weighted index number, which included 404 commodities or price series, registered 145.3 for March, compared with 146.4 for February, a decline of three-fourths of 1 per cent. Compared with March, 1926, with an index number of 151.5, there was a decrease of a little over 4 per cent. This downward trend makes profits more difficult to secure than on a rising market.

Of the 404 commodities or price series for which comparable information for February and March was collected, increases were shown in 83 instances and decreases in 135 instances. In 186 instances no change in price was reported.

Following are the Labor Bureau's index numbers by groups of articles at different dates, 100 representing the average of 1913:

	Mar., 1926	Feb., 1927	Mar., 1927
Farm products	144.0	136.9	136.6
Foods	151.4	148.2	147.1
Clothing materials	180.5	168.7	168.4
Fuels	175.1	177.1	168.3
Metals and metal products ..	127.1	122.2	122.8
Building materials	175.5	167.9	166.8
Chemicals and drugs	131.6	122.0	120.7
House furnishing goods	163.9	157.5	157.4
Miscellaneous	128.3	118.5	118.6
All commodities	151.5	146.4	145.3

That the decline continued through April is shown by Prof. Irving Fisher's wholesale price index of 200 representative commodities and the relative purchasing power of money for the past four weeks as follows (1913 being taken as 100):

	Index Number	Purchasing Power
Week ended April 1	140.3	71.3
Week ended April 8	140.9	71.0
Week ended April 15....	140.1	71.4
Week ended April 22....	139.5	71.7

Flood and Storms Hit Trade in West

THE disastrous floods and tornadoes in the Middle West are unsettling factors necessitating calls for relief from charitable associations, as more than 250,000 people are homeless in the Mississippi and Missouri River valleys, and the effect on the business situation cannot yet be measured accurately. America has never faced a more pathetic situation than the plight of these thousands upon thousands of farmers. They have lost their mules, their hogs, their poultry and their cows, and this does not take into consideration their homes, their crops and their household effects.

In many instances it will be too late when the waters have receded for these people to make a crop, and even if it were possible they will be unable to do so because they will be without the stock or the seed grains or cotton which they must have if a crop is to be grown. Here is a problem of grave national importance, and the people in happier and more fortunate sections of the country will have to bear their part of the burden necessary when the time comes.

The cotton loss will go into the millions of dollars, as the flood zones include the very finest cotton in the southern states. There may be a chance to replant in some sections, such as the valley of the Arkansas, but no matter what happens, a crop such as is grown under normal conditions will be, say those who know this country, impossible this year.

The agricultural loss may go as high as $5,000,000,000. But this will not be the only loss of gigantic proportions due to the record-breaking flood. The lumber industry, for instance, will suffer a loss running into the millions, the Hardwood Manufacturers' Association of Memphis estimated, listing 124 large hardwood mills that have been flooded out of business and with more expected to go under before the flood is over.

Again there is the mercantile loss in cities and towns from St. Louis to New Orleans. Thousands of small country stores, others in towns like Greenville and Arkansas City, are under water and everything in them lost. Then the damage to buildings that will still be standing when the waters have receded, and the loss of buying power and the money damage, in the opinion of some of the best posted men in the Mississippi Valley, will exceed $1,000,000,000.

1927 Profits are Irregular

THE irregular trend of business during the current year is shown in the earnings statements that are now appearing. Of the first 125 reports for the three months ended March 31 that have so far been issued, seventy-four give higher profits than in the corresponding period of 1926, while fifty-one are lower.

Certain groups reflect particular conditions. In the steel industry, out of thirteen leading manufacturers, only three were ahead while ten were behind last year, due to curtailed rates of operation and lower prices.

Motor car companies are already feeling the effect of the keen competition in the industry, and out of fifteen quarterly reports, seven were ahead of 1926 and eight behind.

Among ten leading units in the oil industry, six were ahead this year and four behind. The second quarter of the year will doubtless be even more unfavorable, since the price reductions of crude and gasoline did not become marked until March.

Other lines, however, show an upward trend, as coal and leather, while many "specialty" companies, i. e., those that cannot be classified in any industry or which dominate their entire field, also continue to forge ahead.

Banks in the South in Strong Condition

STRENGTH in the general banking situation in the South is reflected in figures compiled from statements of 153 leading banks, which on April 13 had loans, discounts and investments aggregating $1,666,021,000. In the year ended April 13, 1927, these banks had increased their total investments owned from $310,435,000 to $339,510,000, an increase of $29,075,000. During the same period borrowing at Federal Reserve banks was reduced from $48,140,000 to $23,145,000, a reduction of $24,995,000. A year ago securities owned were about six times borrowings from the regional banks. At present they are about thirteen times.

The three Federal Reserve banks in the South are also much stronger than they were a year ago. Their average reserve

ratio on April 13 was 78.8 per cent. The ratio for the Richmond bank was 80.0 per cent and for Atlanta 84.5 per cent. Incidentally, Atlanta and Boston had the highest ratios in the system, each 84.5 per cent. The improvement in the ratios of the Reserve banks in the South during the last year has been better than average.

The subjoined table shows ratios of Richmond, Dallas and Atlanta on April 13, this year, and April 14, last year, together with increase for each bank.

	Ratio Apr. 14, '26	Ratio Apr. 13, '27	Increase
Richmond	60.5	80.0	19.5
Atlanta	75.6	84.5	8.9
Dallas	59.3	71.3	12.0

Richmond not only shows the largest gain in points among the southern reserve banks, but the largest in the entire system.

Money Rates Abroad Continue Decline

IN reducing its discount rate from 5 to 4½ per cent on April 21, the Bank of England joined in a general downward movement in money rates that had been in progress throughout Europe since the start of the year, and which was discussed in these columns last month. Nine other central banks of Europe have cut their rates since last December and four of them have taken this action twice.

Mainly in order to encourage a flow of capital to London and to prevent an excessive drain on sterling exchange during difficult industrial periods, the Bank of England had held its rate stationary. The hands of the British bankers finally were forced by influences working from two directions. Funds flowed to England from other parts of Europe in such volume that open market money rates were forced down sharply and the bank's gold holdings increased by more than $15,000,000 in three weeks. This was accompanied by increasing pressure from business interests in England, which contended that trade and industry would be stimulated by a lower bank rate.

The reduction came as one of the most important international developments in weeks and started immediate discussion as to the possibility of a cut in the rediscount rate of the Federal Reserve Bank of New York. At its first meeting following the British reduction, the New York bank made no change in its rate, and the general opinion is that none will be made. A conflict of views exists, however, and the subject of the rediscount rate is certain to be to the fore in Wall Street discussion in coming weeks.

Oil Financing Features the Bond Market

NEW public financing by units engaged in the oil industry amounts to $169,000,000 par value so far this year. Included in the total is the $50,000,000 of 5 per cent debentures recently sold by the Shell Union Oil Corporation, the largest piece of oil financing this year. While it may not be true in all instances, in a number of cases new financing is a reflection of the disturbed markets for crude and refined oils. Lower

prices, of course, have adversely affected earning power of properties, and in cases where expansion of properties or development of new ones was provided out of 1926 profits, new financing has been arranged to capitalize such expenditures by securities and so replenish working capital.

That there will be further financing by oil companies there is little doubt. A number of companies will undoubtedly do financing in the next several months, and in some of these cases it will be for the purpose of liquidating bank borrowings now being incurred to store crude oil during season of low prices as well as to meet usual expansion of properties.

Major Financing in April

Issue	Amount	Rate	Due	Price	Yield
Federal Land Bank	$100,000,000	4¼	1957	101¼	4.10
Duquesne Light Co. 1st	55,000,000	4½	1967	95	4.78
Shell Union Oil Corp. s. f. deb.	50,000,000	5	1947	99½	5.04
Kingdom of Jugo-Slavia, sec. ext. series B	30,000,000	7	1962	92½	7.60
City of Milan, Italy, ext. s. f.	30,000,000	6½	1952	92	7.19
Humble Oil & Refining Co. deb.	25,000,000	5	1937	100	5.00
State of New South Wales, Australia, ext. s. f.	25,000,000	5	1958	96¼	5.25
Argentine Government, ext. s. f. public works	21,200,000	6	1961	99	6.05
Illinois Central Railroad Co. joint 1st ref. series C	17,350,000	4½	1963	97½	4.64
Canadian National Rys. eq. tr. cert. series J	15,000,000	4½	1928-42	..	4.50-70
City of Pittsburgh	13,938,000	4¼	1928-57	——	3.75-85
Spruce Falls Power & Paper Co., Ltd., 1st	13,000,000	5½	1930-43	100	5.50
State Mortgage Bank of Jugo-Slavia, sec. s. f.	12,000,000	7	1957	92	7.69
Meridionale Electric Co. (Italy) 1st s. f. series A	10,750,000	7	1957	95½	7.35
Province of Buenos Aires (Argentina) ext. s. f.	10,613,500	7	1958	95	7.40
American Radiator Co. deb	10,000,000	4½	1947	96	4.80
State of North Carolina, highway	10,000,000	4	1929-38	100¼-½	....
Empire District Electric Co. 1st & ref.	9,400,000	5	1957	98½	5.10
City of Toronto, Ontario, Canada	8,800,000	4½	1928-57	99¼-100	4.50
Public Service Co. of Oklahoma, 1st series D	8,500,000	5	1957	97½	5.15
California Water Service Corp. sec. notes	7,500,000	5	1928	100	5.00
Cincinnati Street Railway Co. 1st series A	7,000,000	5½	1952	100	5.50
State of Illinois, highway	6,000,000	4	1945-56	102½	....
United Public Utilities Co. 1st lien series A	5,550,000	6	1947	100	6.00
Provincial Paper Co., Ltd., 1st s. f. series A	5,300,000	5½	1947	95¼	5.90
Continental Securities Corp. deb. series A	5,000,000	5	1942	99½	5.05
Minnesota & Ontario Paper Co. 1st s. f. series C	5,000,000	6	1950	100	6.00
Southwestern Gas & Electric Co. 1st series B	5,000,000	5	1957	96½	5.23
Missouri Public Service Co. 1st series A	5,000,000	5	1947	97	5.25
Adriatic Electric Co. (Italy) ext. s. f.	5,000,000	7	1952	96	7.35
Insurance Exchange South, Chicago, 1st s. f.	5,000,000	6	1947	100	6.00

What the Iron Hand of Fascismo

(*Continued from page* 822)

bank's reserve. Thus the note circulation on account of the state was reduced from 6,728,000,000 lire, where it stood on July 31, last, to 2,229,000,000 lire, while the gold reserve of the Bank of Issue was raised to a total of 2,400,000,000 gold lire.

(2) A sum of not less than 500,000,000 lire will be inscribed annually in the budget of the Ministry of Finance, beginning with the current financial year, for the gradual retirement of the notes issued on account of the State. Thus within a maximum of nine years this debt will be extinguished.

(3) The 400,000,000 lire worth of 25-lire Treasury notes have within the year been withdrawn and not replaced.

(4) A maximum normal limit of 7,000,000,000 lire has been fixed for notes issued on account of commerce, provision being made for raising this normal limit to meet emergencies, but in such exceptional cases the "circulation tax" is raised by ⅓ on all notes thus issued which are not fully covered by gold.

(5) One million lire of Treasury bonds, issued for the account of the autonomous section of the Consortium for subventions on industrial securities, have been retired.

It might be added that in February, 1927, the total circulation for state and trade account decreased 19,585,000,000 lire, showing a further reduction of 167,000,000 lire, as compared with the previous month.

A final step in the direction of unit of control in monetary policy has been taken in the control of fiduciary currency, in the supervision of credit operations, and in the sale and purchase of valuta on behalf of the Treasury. This latter function has been transferred from the Treasury to the recently reorganized Instituto dei Cambi, whose task it is "to harmonize the general economic interests of the country with the needs of production and trade and with the debit and credit relations existing between Italy and foreign countries."

Such is the program. The details are manifold, but the main outlines stand out in clear relief. Ultimate success will depend in no small measure upon factors outside the realm of industry and finance, and in the field of psychology.

In last analysis, success will depend quite as much on the continuance in power of Fascismo, upon the willingness of people to be thus continually "directed," upon public mood when unemployment becomes more general, when wages are reduced, and when criticism of the "iron hand" becomes more open and effective.

The record during the past five years and more is in many ways an enviable one. Will it continue?

Eastern Savings Conference

THE series of four regional savings conferences, which was held under the auspices of the Savings Bank Division of the American Bankers Association, was brought to a close on April 7-8 with the Eastern Regional Savings Conference at Washington, D. C.

A wide range of subjects was covered by the conferees during the two sessions—the most profitable investment of savings deposits, the stimulation of inactive accounts, the savings club idea, mass advertising, meeting the misfit customer problem, the desirability of a more stable money, blocking the sales of worthless securities, the two sides of installment buying, the improvement of financial advertising and other related topics.

The Guiding Policies

(*Continued from page* 786)

respect to what the people wanted is evidenced by the fact that today the Bank of Italy enjoys the patronage of more depositors than any other financial institution in the United States. The Bank of Italy has made an honest effort to give the state, not only what it wanted, but also what it needed, and the public has met us more than half way.

In the adoption of a state-wide branch banking policy, the principle of diversified investment occupied a conspicuous place in all considerations. It was felt that by increasing the spread of loans, not only to cover a variety of endeavors, but also to include a great number of independent communities, a more perfect balance could be secured in the extension of sound credits. The most satisfactory way to achieve the desired result appeared to be through the establishment of branch offices, rather than by attempting to encourage borrowers whose activities were carried on at points remote from the locale of the bank's trade territory.

To appreciate the importance of this intention more readily, it is essential to bear in mind the divergence that exists in California's industrial and agricultural complexion. Almost every species of fruit or vegetable that can be grown anywhere in the world is produced some place in California. Any commercial enterprise that can thrive anywhere on earth will find a suitable combination of economic advantages in one or more of the cities of the state. But California is very large in area, and to secure the desired diversification of investments that the Bank of Italy sought, it was necessary to reach out to the communities that offered such opportunities.

It has always been our practice from the very outset to follow a consistently generous policy toward our stockholders. They have supported us loyally at every turn, and it seemed no more than fair play to give them the benefit of increased dividend payments whenever such action was warranted. This has served to bind more closely to the institution the great body of these stockholders, who have been quick to appreciate this attitude.

The Bank of Italy has always been a democratic institution: a bank of the people. This applies to its ownership as well as its patronage. The very corner-stone upon which its foundation rests is the principle, that no individual or small group of individuals shall own enough stock to permit the unwise domination of its policies. As the bank expands, increasing step by step, the number of its branch offices and the communities it serves, it also increases in just proportion the number of its stockholders. So it may be said in reality that as the institution develops in scope and extent of operation, it also develops the democratic character of its ownership. The larger it grows, the more it becomes a bank of, for and by the people.

One other policy that we have pursued is perhaps worthy of mention. It applies to our employees. The organization since its inception has been very much like a large family in the relationship between the members of the staff. People often comment on what they call "the spirit" of the institution. It is in reality the friendly interest expressed in the service of our customers. In part, this is purely spontaneous. We try to have in our employ people who are naturally pleasant and cordial. But that is only a part of the picture. The bank seeks to make employees realize that plenty of opportunities are here for everyone, and that men of the right type are appreciated.

On the occasion of our twentieth anniversary celebration, several years ago, a policy of rotation in office for our senior executives was announced, thus clearing the way to the top for any man in the organization who has the capacity and shows himself equal to the task. Our employees know that they will not have to sit around and wait for the men who are now at the head of the institution to die. Promotion right up through every office, including that of president, is a sure thing, and it will come to those who make good.

The bank has also introduced a plan of employee stock ownership (sponsored by Mr. Giannini) that will ultimately place more and more of the stock of the institution in the hands of those who are engaged in making its operation a success. Forty per cent of our net profits are set aside each semi-annual period, and this is used as a stock purchase fund for the employees. Of course many of the employees have owned stock right along, but previously there had been no effort made, looking to assisting them through eventual employee control.

Unforeseen Developments

(*Continued from page* 802)

particularly Philadelphia, Boston and Chicago.

Building Up an American Discount Market

WE have been endeavoring ever since the Federal Reserve Act gave the national banks the right to accept drafts to build up a bill market similar to the market which for many years has financed most of the world trade in London. Most of the acceptance business naturally centers in New York, but there are banks in Boston, Philadelphia, Chicago and San Francisco, and a few elsewhere, that make a specialty of accepting.

It is naturally a business that belongs to the great seaport cities, particularly to the financial centers, as it has to do chiefly with financing foreign trade. Not much acceptance business can be built up elsewhere, and without a bill market no Federal Reserve bank can do a real central banking business in the sense in which the term is understood abroad.

All of the Federal Reserve banks to some extent, particularly those in the eastern financial centers, do one kind of business with their great city banks and another kind with their country member banks.

The city banks are in and out of the Federal Reserve bank for large amounts, their loans running generally for very short periods, sometimes only for one day, while loans to the country banks are either rediscounts of notes, having anywhere from a month to five or six months to run, or, if made on their fifteen-day notes, are frequently renewed.

The criticism was made in the United States Senate during the period of low prices of 1921, that the Federal Reserve Bank of New York was loaning more money to one or two of its member banks than the Federal Reserve banks of Minneapolis, Kansas City and Dallas were loaning to all of their thousands of member banks. The criticism was, of course, literally true, and doubtless sounded in the agricultural sections of the country like a terrible indictment. It would be equally true today. The Federal Reserve Bank of New York was, in fact, loaning only a few days ago some $38,000,000 to one of the New York City banks, which is more than the combined loans of the Federal Reserve banks of Minneapolis, Kansas City, Dallas and St. Louis to all of their member banks, but, of course, that does not mean anything, excepting that there is not the same demand for money in the West just now that there is in the financial centers. The bank that was borrowing $38,000,000 from the Federal Reserve Bank of New York a few days ago had a larger capital and surplus probably than the aggregate of all the banks borrowing from the western Federal Reserve banks mentioned. The rates of rediscount just now are exactly the same in the western Federal Reserve banks as they are in the Federal Reserve Bank of New York.

In fact, they are uniform throughout the country, which, in my opinion, is probably not exactly as it should be, for conditions are certainly not the same in all the Federal Reserve districts.

More Stable Money Rates

THE fluctuations of money rates in the financial centers, and particularly in New York, are closely watched by the Federal Reserve Board and by the managers of the Federal Reserve banks, and through the operations of the system the larger fluctuations which in old times used to cause a good deal of trouble have been eliminated, while even the minor fluctuations have been somewhat brought under control.

This is not due so much to changes of discount rates as to the operation of what are called repurchase agreements, through

which bankers' acceptances and short term government securities flow in and out of the Federal Reserve banks in accordance with money rates. If call money goes up so that the bill brokers in New York find difficulty in carrying their portfolios, they take some of their bills to the Federal Reserve Bank and sell them, either outright or with an agreement of repurchase. The New York bank, and I think the same is true in Boston and Philadelphia, purchase all bills offered them at a fixed rate, which is a little below the rediscount rate. If they are getting too large a proportion of bills, that rate is raised. They do not purchase short term government securities in quite the same way, but do take them at a rate below the rediscount rate with repurchase agreements, so that they flow in and out with direct relation to the fluctuations of the call money market.

In this respect the Federal Reserve banks in the eastern financial centers operate in a manner very similar to the operations of the Bank of England, steadying the money market by preventing violent fluctuations in rates.

Preventing Inflation

THESE operations, however, do not have very much influence on the volume of credit outstanding in the direction of preventing inflation or deflation. Some part of this work is done through an Open Market Investment Committee, which buys or sells, with the approval of the Federal Reserve Board, short term government securities. The portfolio of these securities, handled by the Open Market Committee, is frequently carried for rather long periods without much change, excepting with relation to the big fluctuations on the quarterly day tax-paying periods.

The carrying of this portfolio, however, presents a means of offsetting gold imports should they become too large or of relieving pressure should interest rates show a tendency to become high enough to be burdensome to business. Most of these operations center around the Federal Reserve Bank of New York, but are operated through consultations with the governors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland and Chicago, who are members of the so-called Open Market Committee.

The problems of most of the western and southern Federal Reserve banks are in the main entirely different from those of the eastern Federal Reserve banks.

There has been such a tremendous number of failures among small banks in the West, and in some parts of the South, that a good deal of the attention of managers of the western Reserve banks has been given to the nursing of over-extended institutions, and the collection of paper from failed banks.

The Federal Reserve banks of the West and South have, in fact, sustained considerable losses through these failures, though the losses in proportion to their resources were in each case relatively small.

Maximum Coverage From Insurance

A COMPREHENSIVE treatise on bank insurance, intended as a guide book for members of the American Bankers Association, has been issued by its Insurance Committee, bringing out the coverage now enjoyed under the most dependable forms of contracts, including those copyrighted by the Association. It also instructs bankers how to get the maximum benefit from their various insurance contracts, especially directing attention to risks not covered under a number of forms. The booklet is entitled "Dependable Bank Insurance," and has been sent to all member banks, State Bankers' and Clearing House Associations.

The text, prepared in narrative form by James E. Baum, secretary of the committee, says in part: "Every bank or trust company is confronted with insurance problems involving serious risks that are peculiar to banking.

"Beyond all other means of loss prevention, the Insurance Committee of the Association has always advocated the broadest possible insurance, and, in view of the increasing variety of policy forms being sold, the committee deems it advisable to give member banks an outline of the most desirable forms of essential insurance available, with a brief explanation of the protection afforded by each contract."

Supplemented by a summary of the material differences in the terms of Blanket Bonds, the treatise analyzes these bonds in detail, giving a comparative summary of the exclusions each contains.

Profits in Railway

(*Continued from page 806*)

per cent on the cumulative preferred and $8 per share on the common, there was a balance of $115,730 to carry to surplus, contrasted with a deficit after dividends in 1925 of $6,593,321.

Due to the acquisition of Railway Steel-Spring during the year, it is difficult to calculate the yield on capital invested. If an average of the stock outstanding and surplus at the beginning and end of 1926 be used as a basis, amounting to $86,982,362, the profit reported above represents a return of 9.22 per cent.

This company is accustomed to a succession of fat and lean years, and its business has been conducted accordingly. Careful husbanding of resources, moderate dividend disbursements and a conservative expansion program have kept surplus profits intact and provided a bulwark of security holdings in times of indifferent business. At the end of 1926 the company has $3,039,786 accounts payable and $972,756 tax reserve, which, including all other liabilities, such as remainder of bonds, unclaimed interest and dividends, sundry accounts and miscellaneous current reserves, made a total debt of only $4,328,615. Against this it held cash of $4,523,391, call loans $1,500,000, United States government certificates and bonds $17,830,086, railroad equipment trust certificates $6,183,940, Canadian bonds, etc., $2,550,887 and stock $206,025, making an aggregate of cash and securities of $32,794,329, or 7.5 times total debt. Such a policy of prudence and liquidity might well be followed by many smaller concerns.

American and Baldwin have pursued a divergent policy on foreign business. The former has as a rule refused to consider orders from the war-impoverished and other countries that were unable to pay cash or whose obligations were not gilt-edged. Baldwin, on the other hand, went after foreign business and secured a goodly portion, taking in exchange large holdings of government paper from Poland, Roumania, Argentina, Mexico, China, Colombia and Belgium. The regularity with which interest and payment on principal account have been made has shown that President Samuel Vauclain of Baldwin was justified in pursuing the course he did in the abnormal reconstruction period, for it meant work and wages to his employees at the time and since then has meant profits and dividends to the stockholders.

In connection with the establishment of a credit policy Baldwin management adopted the plan in making up its annual report of dividing sales, costs and profits into those done on a cash basis and those done on a credit basis. From gross profits there was deducted as a reserve each year the amount of deferred profits, and this reserve was carried on the balance sheet. As deferred profits were realized they were included in other income in that year, and so became subject to Federal income tax in the year in which the money was received.

A detailed discussion of all the important companies in the industry is impracticable, due to the many demands for space in THE AMERICAN BANKERS ASSOCIATION JOURNAL, but some reference deserves to be made to certain other companies and to some current developments, which will be as concise as possible.

The largest of the car manufacturing concerns is American Car & Foundry Co. It was organized in 1899 as a consolidation of eighteen concerns, and has now grown and rounded out to produce probably 30 per cent of the country's freight and passenger cars. In December, 1925, the American Car & Foundry Motor Co. was formed to acquire the Hall-Scott Motor Car Co. and the Fageol Motor Co. of Ohio, and in January, 1926, the Brill Corporation was formed to acquire the J. G. Brill Co.

The diversification of its products, and particularly the demand for repairing in its own shops, and for sale of repair parts, has given this company a remarkable stability of earnings. Taking the last five fiscal years, which end April 30, net profits were $6,583,000 in 1922, $6,214,000 in 1923, $6,305,000 in 1924, $6,164,000 in 1925, and $6,103,000 in 1926. This is in striking contrast with concerns making one type of equipment only.

The Pullman Company

THE Pullman Company is not only the pioneer in the field of sleeping car operation, but it has practically a monopoly of the business. Years ago many of the

railroads owned and operated sleeping car equipment, but they have gradually discontinued the practice, and now every important railroad system has signed contracts with Pullman. Withdrawals of the roads from this branch of operation is in itself a tribute to the efficiency of this company's service.

Incorporated in 1867 under the name of the Pullman Palace Car Co., the present name was adopted in 1899. A number of competing companies were eventually acquired, and in 1921 the Haskell & Barker Car Co., a manufacturer, was taken into the organization.

Two years ago the company formed Pullman Car & Manufacturing Corp. to segregate its manufacturing activities. Recently the proposal has been made that the capital set-up be altered, so as to have a business corporation hold the majority or all the stock of a common carrier subsidiary, as against the present arrangement whereby a common carrier company owns all the stock of a manufacturing subsidiary. It is pointed out that under the new status the assets of the Pullman Co., which are not essential to its carrier operations, can be more advantageously utilized for the benefit of the stockholders in broadening the scope of its corporate activities.

Westinghouse Air Brake Co.

A NEW member in the select list of "ten million dollar corporations," measured by earnings, is the Westinghouse Air Brake Co., and it has the distinction of being the only equipment company in that class, Pullman excepted. Its report for the calendar year 1926, just published, shows net profits of $10,535,000, scoring a gain of more than 51 per cent over the previous year.

This concern, which was incorporated in 1869, manufactures air brakes, air compressors, friction draft gear and related apparatus. It owns the American Brake Co., Locomotive Stoker Co., Milwaukee Locomotive Mfg. Co., National Brake & Electric Co., National Steel Foundries, National Utilities Corp., Safety Car Devices Co., Union Signal Construction Co., Westinghouse Air Brake Home Building Co., Westinghouse Friction Draft Gear Co., Westinghouse Pacific Coast Brake Co., and Union Switch & Signal Co. The latter company has greatly benefited from orders for automatic train control apparatus and may account for considerable of the increase in profits during 1926.

Westinghouse Air Brake Co., which should not be confused with Westinghouse Electric & Mfg. Co., which makes electrical machinery and also does a big business with railroads, has been a steady performer as to earnings. Last year's net would represent, on its $52,727,761 capital and surplus at the beginning of the year, a return of 20 per cent.

General Railway Signal Co.

FEW industrials can boast of progress comparable to that of the General Railway Signal Co., which specializes in the manufacture of automatic train control apparatus that is being installed on most railroads as rapidly as conditions permit.

There are a number of different types of train control apparatus, of which the intermittent induction type is probably the most popular, followed by the continuous induction type, the plain automatic stop and the ramp. Most of them operate on the principle of an electrical or mechanical trip, which automatically brings the train to a standstill if the engineer goes by a signal set against him. The engine cannot proceed again until the engineer has climbed down to the side of the engine to release the lever. The conductor is required to report any unscheduled stop made from this or other cause, which, of course, goes against the engineer on his record. Even if not so reported, the train dispatchers can tell from their sheets whenever a scheduled train makes such a stop, though it be for only a few minutes.

Not only are the railroads spending millions of dollars in an effort to carry into effect the orders of the Commerce Commission regarding train control, but they are also lending their best efforts to develop train control by actual operations under all sorts of conditions. Much of this expenditure is not directly productive of increased revenues, any more than is the elimination of grade crossings, but the railroads being publicly regulated have no alternative.

Railway Signal's earnings read like fiction. From a deficit of $89,000 in 1921, earnings were $174,000 in 1922, $767,000 in 1923, $816,000 in 1924, $1,790,000 in 1925 and $3,928,000 in 1926.

Railroad Prosperity Through Efficiency

FOR the full year 1926 the Class I railroads of the United States reported total freight and passenger revenues of $6,448,566,589, representing an increase of $261,000,000 over 1925. Total operating expenses were $4,715,021,878, up $133,000,000. This allowed a gain in operating income of $128,000,000. Taxes, however, increased $30,000,000, leaving a net operating income of $1,231,790,927, up $93,000,000. It is interesting to note that last year's tax bill reached the sum of $394,243,640, and took 6.12 cents out of every dollar of gross and 22.75 cents out of every dollar of net operating revenues.

These figures are correctly hailed as evidence of growing efficiency, but in the absence of details the casual reader may think that railroad efficiency is attained by some process of general "pollyannaizing" from a swivel chair.

Possibly this simple comparison of operating data for the two periods will throw some light on the ways and means of getting more work out of the railroad machine:

	1925	1926	% Increase
Net tons per car.......	27.0	27.4	+1.5
Freight cars per train..	43.8	45.2	+3.2
Gross tons per train....	1,670	1,737	+4.0
Net tons per train......	744	772	+3.6
Train speed, m.p.h......	11.8	11.9	+0.8
Net tons per train hour.	8,773	9,207	+4.9
Car miles per day......	28.5	30.4	+6.7
Net ton miles per car day	495	532	+7.5
Locomotive miles per day	58.3	61.8	+6.0
Coal, per 1000 ton miles, lbs.	140	137	—2.1

Gross tons per mile, meaning total weight of the train behind the tender, increased in somewhat greater ratio than the freight load. That reflects in part the use of larger and heavier cars, which is both a means and an obstacle to economy in operation. It reflects also a proportionately larger movement of empty cars, which means a greater effort to serve the shipper's car requirements promptly. Unfortunately, the average car load was raised by only four-tenths of a ton. The car load is a factor over which shippers have more control than railroad managers, and one influenced by the prevalent habit of hand-to-mouth buying.

Nevertheless, the net freight train load was increased somewhat. So was average freight train speed, the two combining to effect a greater ratio of gain in the amount of work done by each freight train during each hour it was manned by a well-paid crew and eating up coal. These percentages of gain seem small, but the comparison is with a period in which the carriers were regarded as pretty well managed.

In the much greater gain in average daily movement of cars is reflected not only some little gain in train speed, but much more the prompt gathering of loaded cars into trains and their expedited handling through yards and terminals. The daily service obtained from each car increased substantially, but less than the daily car movement because of the larger proportion of empty to total car miles. Movement of empties to shippers without waiting for the opportunity to load them is indeed a service, though it is naturally not recorded in the number of ton-miles of transportation.

The railway equipment industry is benefited by the use of heavier engines and larger cars; expedited handling of freight, however, requires fewer cars, although they wear out faster.

Broader Market in Equipment Trusts

BROADENING in the market in railway equipment trust certificates since the war indicates a growing appreciation on the part of the investing public of the importance of this particular type of security. Figures compiled by Freeman & Co., investment bankers, show a pronounced increase in the aggregate of equipment trust issues sold in the United States. The largest aggregate of such flotations was in 1920, when $521,632,000 were sold. The government was still directing the railroads through the Director General in that year.

Figures covering equipment trust issues beginning with 1910 and running through 1927 to date follow:

1910 ...	$ 77,626,000	1919 ...	$ 32,500,000
1911 ...	47,601,000	1920 ...	521,632,000
1912 ...	96,181,000	1921 ...	62,221,000
1913 ...	149,121,000	1922 ...	191,894,000
1914 ...	63,448,000	1923 ...	318,343,000
1915 ...	44,703,000	1924 ...	260,682,000
1916 ...	64,797,000	1925 ...	185,000,000
1917 ...	76,635,000	1926 ...	214,000,000
1918 ...	20,920,000	1927 ...	45,000,000

"The remarkable broadening of the markets for equipment trust securities has been one of the most noteworthy features of our recent financial history," says Freeman & Co. "Originally the product of necessity and employed by weak railroads to secure funds otherwise unavailable, the splendid features of this time-tried investment se-

curity have been found to be the most economical and attractive method of financing purchases of rolling stock by railroads of the highest possible credit rating.

"Equipment trusts, always in demand by the larger banks, trust companies and insurance companies, are immensely popular with the directors of banking institutions throughout the country who recognize the sound principles upon which bonds of this sort are issued and their many advantages, including their quick convertibility into cash. This demand, coupled with an unprecedented increased and augmented buying power on the part of hundreds of thousands of private investors, has absorbed during the past ten years over $1,900,000,000 par value of equipment trust securities."

Gain in Resources

THE combined resources of the 7828 reporting national banks amounted to $25,699,147,000 on March 23, the date of the last bank call issued by the Comptroller of the Currency. This was only $15,000,000 more than shown at the close of 1926.

The statement revealed that demand deposits had fallen off about $240,000,000, but this was more than offset by a gain of $523,025,000 in individual time deposits.

Bills payable by national banks aggregating $306,203,000 were reduced by $85,390,000 since December.

Every member bank is entitled to the privilege of our Group Subscription Plan.

Convention Calendar

Date	State Associations	Place
May 10-11	Oklahoma	Oklahoma City
May 10-12	Texas	El Paso
May 12-13	Tennessee	Chattanooga
May 16-18	Georgia	Atlanta
May 17-18	Missouri	Joplin
May 18-19	Maryland	Atlantic City, N. J.
May 18-20	Kansas	Manhattan
May 18-21	California	Del Monte
May 19-21	Alabama	Birmingham
May 19-21	New Jersey	Atlantic City
June 1- 2	West Virginia	Clarksburg
June 3- 4	Oregon	Gearhart-by-the-Sea
June 6- 8	New York	Washington, D. C.
June 8-10	Pennsylvania	Pittsburgh
June 8-10	Minnesota	St. Paul
June 8-12	District of Columbia	Hot Springs, Va.
June 9-11	Washington	Tacoma
June 10-11	Utah	Salt Lake City
June 14-15	Idaho	Hayden Lake
June 15-16	North Dakota	Jamestown
June 15-17	Ohio	Cedar Point
June 18	Maine	South Poland
June 18-24	Michigan S. S. "Noronic,"	Detroit-Duluth
June 20-22	Iowa	Des Moines
June 21-22	Mississippi	Biloxi
June 21-23	Wisconsin	Madison
June 22-23	Kentucky	Lexington
June 23-24	Illinois	Danville
June 23-25	Virginia	Virginia Beach
June 24-25	Colorado	Estes Park
June 27-29	South Carolina	Asheville, N. C.
July 1- 2	South Dakota	Deadwood in the Black Hills
July 21-23	Montana	Helena
Sept. 1	Delaware	Rehoboth
Sept. 1	Wyoming	Thermopolis
Sept. 21-22	Indiana	Indianapolis
Oct. 13-14	Arizona	Flagstaff
Oct. 20-22	New Mexico	Deming
——	Nebraska	Omaha

Date	Other Associations	Place
May 19-21	Reserve City Bankers	Pittsburgh, Pa.
May 25-27	National Foreign Trade Council	Detroit, Mich.
June 24-25	New England Bankers	Maplewood, N. H.
July 11-15	American Institute of Banking	Detroit, Mich.
Oct. 24-29	American Bankers Association	Houston, Tex.
——	Investment Bankers Association	Seattle, Wash.

Trust Company Division Regional Conference

Aug. 11-13	Pacific Coast and Rocky Mountain States	Portland, Ore.

New Books

THE FOREIGN EXPANSION OF AMERICAN BANKS. By C. W. Phelps. Published by The Ronald Press Co. 209 pages. $4.

This book tells the story of the opening of branches by American banks in foreign centers during the post-war period. There are now 107 branches of American banks abroad, although there were 200 a few years ago. The withdrawal of these branch banks the author attributes to the fact that the expansion was unduly rapid and that trained men for the management of foreign branch banks were lacking. Pointing out that most foreign countries impose no restrictions on branches of American banks while New York and California do limit the operations of foreign bank branches in this country, the author thinks a policy of reciprocity should be adopted.

THE FARMER'S CAMPAIGN FOR CREDIT. By Clara Eliot. Published by D. Appleton & Co., New York. 308 pages. $3.

The development of the Federal Farm Loan system and the Intermediate Credit Banks as means of providing the farmers of America with credit to meet their needs is covered in this book, which, after a historical survey of early schemes to provide easy credits for farmers, analyzes their problems and describes the present machinery for financing agriculture. The book reveals the immense mortgage debt the farmers now bear but shows how interest rates on farm mortgages have been reduced. The author warns of the danger of make credit issue a matter of politics.

THE DISTRIBUTION AGE. By Ralph Borsodi. Published by D. Appleton & Co., New York. 321 pages. $6.

Bringing out that in the past fifty years the cost of distribution has nearly trebled while the cost of production has declined by more than one-fifth, Mr. Borsodi insists that what we save through the lower cost of production is lost through the higher costs of modern methods of distribution. He analyzes the modern methods of distribution and emphasizes the high pressure methods that are used. What is needed to lower distribution costs, he concludes, is more real competition, a reduction in the unnecessary costs burdening distribution, increasing the buying power of those classes of the population whose income prevent them from consuming to their full capacity and more patronage of the arts.

NEW BUSINESS FOR BANKS. By Frederick Herman and Bryant W. Griffin. Published by Prentice-Hall, Inc. 326 pages. $5.

This book is written from the practical viewpoint. It seeks to show how to organize a new business department; make the bank more attractive to the public; make every employee a business-getter; to handle solicitation for deposits and trusts; to budget advertising by mediums and departments; how to write display and place newspaper advertising—and many other things of this nature. There is a section on savings departments, covering industrial savings, Christmas clubs, methods of getting savings accounts and other matters of this kind. The authors of the book have had considerable experience in these fields.

1927. INCOME TAX PROCEDURE. By Robert H. Montgomery. Published by The Ronald Press, New York. 2 volumes. $16.

The first most comprehensive volume covers the determination of net income, preparation of returns and the payment. The second volume deals with practice before the Treasury Department, the Board of Tax Appeals and the Federal courts.

PRINCIPLES OF ORGANIZATION APPLIED TO MODERN RETAILING. By Paul M. Mazur. Published by Harper & Bros., New York. $5.

This study of the organization of retailing was made by an investment banker for the National Retail Dry Goods Association. He insists that America is not going to be Fordized, declaring that low-cost production means nothing if the high-cost distribution necessary for the disposal of that production cancels the advantage of manufacturing huge quantities of standardized products.

STEPS IN INDUSTRY. By Edmond E. Lincoln. Published by the Macmillan Co., New York. $2.

Popular treatment is given to the princi-

ples of economics so that the average man can understand them. The explanations are clearly expressed in clear and easily understandable terms. For instance, he says: "Credit may be broadly defined as the power to command present goods or money in exchange for a future equivalent." To refute the popular idea that the government's stamp on currency gives money its value, the author states: "The government's stamp on a slip of paper is like a man's signature on a check. Unless he has an ample deposit in the bank on which he draws the check, the signature is worthless." The book is a primer of a business man's economics written in a language that he will understand.

MAIN STREET AND WALL STREET. By William Z. Ripley. Published by Little, Brown & Co., Boston. 353 pages. $2.50.

This is Professor Ripley's written challenge to the "injustices and questionable practices of present-day financial methods." He shows how the issuance of non-voting stocks has been promoted to deprive the stockholders of their rights to check up on the management. He appeals for adequate and intelligent corporate publicity to reveal the true earnings of the corporations. The public utilities, he says, should be subjected to the same administrative control as the railroads. While the book covers pretty much the same ground as the much-discussed magazine articles that Professor Ripley wrote dealing with non-voting stocks, the exclusive banking management of the great American industries and the supercombination movement in public utilities, it is written in a lively, readable style and will stimulate thinking on the part of a thoughtful reader.

THE VANISHING RIGHTS OF THE STATES. By James M. Beck. 126 pages. $1.50. Published by George H. Doran Company, New York.

There has been a rapid destruction of the reserved rights of the sovereign states, the author, former Solicitor General of the United States, insists, which may soon develop into a constitutional crisis. He challenges the right of the Senate to nullify the action of a state by refusing to seat an elected Senator. The conduct of primary elections is a matter beyond the delegated powers of the Federal government, Mr. Beck asserts, and it is equally without power to reject the deliberate choice of the states by reason of any alleged irregularities in these primaries. The book is of interest in view of the situation in the Senate and the possibility of it refusing to seat Senators-elect from Illinois and Pennsylvania.

THE STOCK MARKET. By Charles Amos Dice. 656 pages. $6. Published by A. W. Shaw Company, Chicago and New York.

A careful study of the stock market has been made by this author, who states he has written it primarily for the trader and investor who feels the need of careful study. A description of the machinery of the stock market, the methods of operation employed by different types of traders and investors, current methods of forecasting both minor and major stock price movements, and a presentation of the methods of analysis of the values and earning power behind stocks, and the best-known systems of rating such values and earning power are covered.

THE GANG. By Frederic M. Thrasher. 530 pages. $3. Published by the University of Chicago Press, Chicago.

Chicago has 1313 gangs, the author of this sociological study finds, and while the gang is not declared to be the cause of crime, it is an important contributing factor, facilitating the commission of crime and greatly extending its spread and range. The organization and protection which it affords, especially in combination with a ring or a syndicate, make it a superior instrument for the execution of criminal enterprises, he finds. The book is replete with reports by investigators on the various gangs. As a solution of this social problem, the author recommends "redirection of the energies of gang boys, so as to give them significance in the larger scheme of things which has a definite place in the life of the community."

HOW TO DO RESEARCH WORK. By W. C. Schluter. 134 pages. $1.25. Published by Prentice-Hall, Inc., New York.

A manual of research procedure presenting an explanation of the principles underlying research methods, showing the various steps in the investigation, and explaining how each step may be applied. The author

makes some practical suggestions as to the form in which the report should be presented and missteps to avoid.

THE NEW KOREA. By Alleyne Ireland. 343 pages. $5. Published by E. P. Dutton & Co., New York.

As an authority on colonial administration, the author gives a detailed account of the Japanese administrative system in Korea. In this case one civilized people is ruled by another civilized people, and, according to his views, Korea is infinitely better ruled than it was in the time of its native rulers.

PRENTICE-HALL 1927 TAX DIARY AND MANUAL. $5. Published by Prentice-Hall, Inc.

A compendium of tax information, containing an outline of all important taxes, except the general property tax, and all important tax dates for the 48 states, the Federal government and the District of Columbia, is afforded by this book. It contains a comparative chart for use in choosing a state in which to incorporate, giving the initial fees, the annual taxes and other requirements. The book also contains inheritance tax tables and charts.

ARBITRATION AND BUSINESS ETHICS. By Clarence F. Birdseye. 290 pages. $2.50. D. Appleton and Company, New York.

This is a study of the history and philosophy of the various types of arbitration and their relation to business ethics. He shows that arbitration is being widely adopted by business to settle disputes without recourse to law, and while it is not a new device, it is being applied in new ways. Litigation should be the last resort to settle differences, the author insists, for he thinks that it is entirely practicable for all classes of trade and business, whose members deal in homogeneous securities, products or commodities, to organize into exchanges, boards of trade or trade associations, under rules or standardized contracts which provide for compulsory conciliation and arbitration of all future disputes.

THE FINANCIAL SYSTEM OF INDIA. By Gyan Chand. 434 pages. $4.25. Published by Kegan Paul, Trench, Trubner & Co., Ltd., London.

As the financial system of India is in a state of flux and has recently been the subject of recommendations for changes by a monetary commission, this book, which describes the system of British India, is of interest. It deals with the governmental system rather than the banking structure and is perhaps of more direct appeal to students of the fiscal problems of governments rather than of banking problems.

TEN PLACE INTEREST AND ANNUITY TABLES. By Frederick C. Kent and Maude E. Kent. 214 pages. $4. Published by McGraw-Hill Book Co., Inc., New York.

A series of tables giving all values to ten decimal figures for 36 rates of interest from ¼ of 1 per cent to 10½ per cent inclusive for 1 to 100, 1 to 200 and 1 to 300 years.

Inventions Strengthen Grain Paper

(*Continued from page* 830)

form results. Mere haphazard testing was found to be of little use and led only to disputes. By use of the new weight-per-bushel tester, grain inspectors can now make their tests in an accurate and uniform manner.

The Ship Sampler

THE ship sampler is another of the Department's inventions. Under the old system of ship sampling it was the custom to seize handfuls of grain from a falling stream, or to let a bucket down into the cargo hold and allow it partly to fill up with the falling grain. These methods did not give a representative sample, and grading was therefore often very unsatisfactory.

Sampling by means of the new device takes complete cross sections from the falling grain as it leaves the delivery spout, so that the various samples, when combined, accurately represent the shipment. E. G. Boerner and E. H. Ropes are the men who contributed this improvement to our great export trade in grains.

Protein content of wheat has come to be an important market factor. Practically every lot of hard red spring and hard red winter wheat arriving at terminal markets is now tested for its protein content and substantial premiums are paid for high protein wheats. Tests are made for the grain

trade at protein-testing laboratories maintained by commercial grain inspection concerns, by state agencies, and by private chemists. Methods in general use for making the tests were not uniform at the different laboratories, consequently the results were not uniform. To overcome this the Department of Agriculture through Dr. D. A. Coleman has developed a standard for making protein tests, the value of which is already widely recognized.

Other Grains Benefit

THE value of flaxseed for crushing depends largely on its oil content. The method heretofore in use for determining the oil content required about 24 hours. Recently Dr. D. A. Coleman and H. C. Fellows of the Department developed a simple method for determining the oil content of flaxseed by which the test can be made in approximately 10 or 12 minutes. This method has already come into commercial use at the principal terminal markets in the Central Northwest and is recognized as an innovation. As flax is the chief alternative crop in the spring wheat regions, the value of improvements in the flax industry to that region is evident.

Hulls can now be removed mechanically from samples of rough rice by means of a shelling device invented by W. D. Smith. This machine also indicates the hardness of the kernels and their resistance to breaking in milling. To ascertain satisfactorily the market value of rough rice it is necessary to remove the hulls before certain defects can be detected and the milling quality or hardness of the rice can be determined. It has been the custom for buyers and graders to "rub out" samples by hand before buying or placing a valuation on the rice, but since this estimate is so important to price, and the hand method of rubbing samples results in such wide variations in duplicate "rubbings," the need for an accurate mechanical method for testing rice which always gives uniform results has become very important.

Inventors Get No Profits

ALTHOUGH many of these methods and devices are in use in important grain markets throughout the world, not in a single case has the man who developed the invention claimed for himself one cent of profits and in some instances his name is not even associated with his device in the minds of the people it serves.

By going into other phases of the Department's work this list of inventions could easily be doubled. There is little evidence here of the reputed deadening influence of government work on initiative and the inventive impulse. On the contrary there are many striking evidences in the histories of the devices that the zeal for real public service constitutes in itself a stimulus to invention that is probably second to none. Most of these patents are the direct result of the recognition on the part of these scientific workers, of certain definite needs in the industry. So great is the determination to meet these needs that when the means cannot be found these men have set out forthwith to create them. The industry is the gainer by millions of dollars and grain paper, amounting to millions of dollars annually, is made safe for financial circles.

The New Law

(*Continued from page* 813)

thinkers of the state that the legislature did everything in its power to give constructive banking legislation. Most of the bankers were opposed to the old guaranty law; nearly all believe the new law to be more satisfactory than the old. The idea of guaranteeing deposits as a whole is done away with entirely. Now each bank can feel that the assessments to guaranty double liability are the actual property of the bank for the protection of the patrons of the bank.

The most constructive part of the new legislation lies in the new duties and powers of the Banking Commission. The Commission now has power to restrict banking charters to legitimate banking needs of the state. It also has proper authority to confine banking practice to safe channels. The control over banking has been centralized in the Commission. If politics are eliminated and the Commission lives up to its duties, South Dakota should have a more conservative banking system in the future. The belief is gradually gaining ground that the safest banking guaranty is sound banking practice.

The Future of the Small Town

(*Continued from page 798*)

ful thing, especially to small banks, would be the organization of county clearing houses, composed of all the banks within a county or within a convenient radius. These county clearing houses could regulate rates of interest on deposits, regulate service charges, disseminate credit information and do a hundred other things that would be helpful to both the banks and their communities.

I believe that in the future banks as well as other corporations are going to be in larger units than they have been in the past. This is truly a billion-dollar country. We are fast approaching the period when nothing but big corporations can develop the country, and I believe the growth and prosperity of the smaller communities will depend very largely upon the attitude of the public mind toward these great institutions. Ownership and management are no longer synonymous terms. The humblest citizen can now be a partner with Judge Gary or John D. Rockefeller.

Getting New Industries

HOW to go about getting industries for small communities is, of course, a great problem, and we must look at all such matters in a broad and tolerant spirit. We must make the inducements ample and the conditions favorable. I think the matter of income taxes should be left wholly to the Federal government. I do not believe any state should have an income tax or an excise tax, and I think corporations should be made to pay no more in taxes than individuals doing identically the same class of business, and no privilege tax should be collected except where a real privilege is given. I doubt very much the wisdom of levying any inheritance tax; certainly there is no excuse for the government levying an inheritance tax, except in times of war, and it has never been done before in this country. I doubt the wisdom of any state levying any kind of inheritance tax. To my mind, this is the most indefensible and vicious of all taxes. If Henry Ford had died at the peak of the inheritance tax, it is extremely doubtful whether his great institution could have survived the various inheritance taxes, and yet he is directly and indirectly supporting probably a million and a half people today.

There has never been a time, since I have been old enough to observe, when it was so easy to get money for investment as it is today, provided those who have it to invest can be assured they will be given a square deal. While seeking new industrial developments we should constantly keep up all helpful movements to strengthen agriculture. Above all things, we should preserve the county agent and the agricultural college. They are worth ten McNary-Haugen bills.

A great future is ahead of this country that may dwarf all that has gone before, provided we keep our heads level and our judgment sound, preserving, above all things, those rights and privileges of citizenship that have come to us at such costly sacrifices.

A $15,000 Prize Fund Created

TO encourage public speaking, A. P. Giannini, chairman of the advisory committee of the Bank of Italy National Trust & Savings Association, has given $15,000 to serve as a trust fund, the interest on which is to be used for prizes to be awarded in an annual national public speaking contest, to be conducted by the American Institute of Banking.

The first of these contests will be held at the forthcoming annual convention of the Institute at Detroit in July.

There were two outstanding reasons that prompted the San Francisco banker to establish this prize fund. Mr. Giannini said he realized the immense amount of good that is being done by the American Institute of Banking among the rank and file of bank employees, and that he wanted to give some tangible evidence of his appreciation. As a number of men connected with the Bank of Italy have become nationally prominent, he desires, because of this fact, to have a more active part in the work of the institute. As he finds that he cannot give of his time, he wants to give of his money.

The prize fund has been formally accepted by the Executive Committee of the American Institute of Banking, and plans are now being made for the Detroit contest.

Foreign Competition

(*Continued from page* 826)

butter in New York was seventeen cents above the price of export butter in Copenhagen. As soon as the price advantage became apparent butter began arriving in New York from abroad and within a few days consignments had come in from Denmark, Canada, New Zealand and Siberia. Shipments arrived later from Sweden and Latvia and prices were quoted on Argentine butter. This imported butter, however, does not go very far inland because every mile of rail haul toward the interior dairy centers reduces the price advantage of the foreign product. Cheese is always imported, but most of the imported cheese is of special Swiss and Italian varieties. The movement of typical American cheese, however, is similar to that of butter. We export regularly to certain countries and import from Canada whenever the price differential makes importation profitable. We have little export trade in fresh and frozen meats except pork. Beef and lamb are imported in small quantities from Canada and the Southern Hemisphere countries but competition is more potential than actual. We export eggs in the shell with Cuba as our best market, but at the same time we import an equal or greater volume of Chinese frozen or powdered eggs.

Except for apples, pears and oranges, which products are definitely on an export basis, and bananas, lemons and onions which are on an import basis, our trade in fresh fruits and vegetables is chiefly a border trade which varies with the season. For these products taken as whole, Canada, Mexico and Cuba are our best markets and at certain seasons their products appear on our own markets.

Much of the foreign competition in our home markets looks at first sight more alarming than it is in fact. It is often profitable to import a commodity in some section of the country over the tariff wall while we are exporting the same commodity from another part of the country. For example, the Pacific coast occasionally imports Argentine corn, since the rail freight from the corn belt to the coast cities is greater than the ocean freight from Buenos Aires to those ports plus the 15 cent tariff. But if this foreign corn is moved toward the interior railway freight charges soon destroy its advantage over domestic corn. So with many products there is a fringe of competition along the borders of the country, while the great interior consuming areas remain untouched.

Will Export Decline Continue

WHILE the United States has apparently been losing ground in the competitive race for world markets for farm products, it is not necessary to conclude that our agricultural exports will continue to decline in the future. There are no more great areas of virgin prairie lands to be exploited, so the increased grain production which will be needed as world population increases must be attained by better yields on the areas now under cultivation, or by the development of new varieties which will extend the grain area farther into the dry land areas which adjoin most of the present prairie lands or which will extend production into areas having a shorter growing season. It is reasonable to expect that technological progress in agriculture will be at least as rapid in the United States as in competing countries. It is possible that agricultural technique may be improved so rapidly that it will be difficult for any country to dispose of its surplus at a profit, but under such conditions the American farmer might be better off than his competitors because of his larger protected domestic market. Canada, Argentina and Australia must find foreign markets for from 70 to 80 per cent of their wheat production, while the United States must find a market abroad for only from 15 to 30 per cent of its crop. In cotton the United States produces such a large part of the world crop that we have less to fear from foreign competition than from over-development at home. Technological improvement which would lower production costs coupled with a moderate restriction in acreage should put the American cotton producer in a very strong position. Too much acreage restriction, however, would raise prices to a point at which foreign competition would be encouraged.

While foreign competition has increased in tobacco markets, American tobacco is still in a relatively strong position. In many other lines, especially those like fruits in which packing or processing are important factors, the United States has a long start over its competitors in technological development which would make the position of the American products in foreign markets reasonably good for many years to come.

Bankers' Acceptances

(*Continued from page* 788)

credit as well as the commission charge made by the London bank for its acceptance.

The present existence of acceptance facilities in New York and other American centers does not, of course, mean that the American merchant does not have to pay reasonable commissions for the services which he now secures in New York rather than directly or indirectly in London. However, competition between the New York and London acceptance markets has resulted in having the banks in both markets accept for lower rates and the American merchant has had the advantage of being able to choose between the London or American discount markets depending upon which one was the cheaper, inasmuch as the total cost of the transaction always varies directly with the price at which bills can be discounted in the open market where the bill has been accepted. Since American banks began to accept actively, rates have on the average been considerably cheaper—exchange and other factors taken into consideration in New York than in London or anywhere else in the world, and the American merchant and for that matter, foreign merchants making use of the American acceptance market, have thereby benefited—while at the same time the acceptance commissions incident to the transaction have accrued to American banks and bankers rather than to foreign institutions. The creation of adequate American acceptance facilities have, additionally in a large measure, eliminated the necessity of clearing a large percentage of the world's trade through sterling, which was the case prior to the development of the American bill market. At the present time enormous quantities of goods are bought and shipped and are invoiced and paid for in dollars which formerly had to be handled through London, with the consequent necessity of having the importer and exporter each convert their transactions from their own currency through sterling.

Attracting the World's Surplus Funds Here

THE existence of a broad discount market in London and other European centers drew to them the surplus funds of the world—for they could be invested in a security guaranteed by a bank of unquestioned strength and convertible into ready funds any time they were needed. There was a free flow of funds between these various centers as the balance of indebtedness changed and the rates on bills reflected these changes. The United States, not having a discount market, did not attract these surplus funds. The development of the acceptance business in New York together with the increasing amount of liquid capital in America has resulted in lower discount rates for bills in America and in the attraction to New York of increasing sums of foreign capital, both for investment in American bills and for settlement purposes in connection with the use of American acceptances for settlement of international transactions which, in many cases, both originate and end in foreign countries.

It was in recognition of the benefits that the sanctioning of acceptance financing would confer on American trade along with the greater influence, internationally speaking, that it would impart to American banking, that Congress decided to permit national banks and state institutions willing to become members of the Federal Reserve System to adopt this vastly useful credit tool.

Development Far Swifter Than Anticipated in 1914

THE development that has occurred has been far swifter than was anticipated in 1914, due in a large measure to the wartime expansion of America's foreign trade, the growing ascendancy of American banking and the support that the Federal Reserve banks have given to the discount market.

The change in our banking system came at a propitious time. The burdens of world war financing gave the dollar credits their first real chance. The dollar has made good and now vies with the pound sterling as the monetary unit in world trade. We have a steady dependable discount market. Our banks are gaining valuable experience. They are growing in strength and if we will but coordinate and make the full and the most intelligent use of our acceptance facilities, we will reap a substantial reward and will help our exporters, importers, producers and manufacturers to broaden and develop markets throughout the world.

Lend $40,000,000

(*Continued from page* 795)

not personally known to us—and most of them were not, of course—we required that each man should bring his discharge from the army, his insurance policy, and a letter of identification. However, in the advertisement, we told the veterans that it would not be necessary for them to be a depositor and that, furthermore, it would not be required that any should become one.

"At four o'clock in the morning on the day following the initial announcement, a line began to form. By 8.30 there were 500 former soldiers waiting for the doors to open. Police were on hand to maintain order, but they were not needed. The ex-service men acted in the true spirit of 'buddies.' The stronger ones gave way to the blind, to the crippled and to others weaker than themselves. Since that day we have made loans aggregating nearly $500,000 on these certificates. In my opinion, the move was one of the most popular ever executed by the institution.

"The notes which the men gave were placed on a five months' basis, because we figured that after the note was due and the veteran did not come to take it up or renew it, we could still hold it for him thirty days longer and yet be within the six months prescribed in the government regulations. We did not require the borrowers to open accounts with us, but despite this more than a thousand have made savings deposits."

The Maryland Trust Company threw open two large rooms on the second floor in its office building, assembled the necessary working force, and proclaimed its willingness to make loans to all veterans who could offer satisfactory identification. On the first day, and for a number of days following, a long line of veterans was formed in the building and on the street, oftentimes as many as two or three hundred waiting for their turn. After a time, however, the rush subsided, but by the middle of March the bank had made loans of more than $300,000.

Probably 60 per cent of the applicants were colored, one of the trust company's officers observed, and a majority of those who sought a loan had the appearance of being in need and appreciative for the relief given them. At first, he noted, a great many of the veterans apparently had a faulty understanding of the whole proposition. They seemed to think that here was something they could get, but that they had better hurry up and get it before it gave out. Later, however, a better appreciation was apparent, and it appeared that those who were making application were really in need of the funds.

Doubtless there are other banks in various parts of the country that have served their communities as well as these banks, but these examples have attracted national attention, and their experiences are recounted to show how they capitalized the opportunity. It is no longer necessary for a bank to make these loans as a means of accommodating the veterans, as Congress passed a law at the last session authorizing the Veterans' Bureau to make loans direct to the holders of these service certificates. An appropriation of $25,000,000 was contained in the Deficiency Bill, but this measure failed of passage due to the filibuster in the Senate during the closing hours of the session. The Veterans' Bureau was not defeated by this turn of events, however. As it can get a return of 6 per cent on all of these loans, as contrasted with the lower yields from its investments in Liberty bonds and other government securities, it now takes the interest that it receives from its present investments with the insurance premiums that are paid in on government life insurance and uses these funds for the purpose of making the loans sought. General Hines has emphasized the point that he regards the Veterans' Bureau loan fund as supplementary to the system of bank loans—to be employed only where banking accommodations are found unavailable.

Business Will Be Profitable

THE Veterans' Bureau has the very definite impression that banks can handle this business at a profit, but the banks are inclined to think that this is a debatable question. One national bank in a New England state made careful estimates of the costs of handling the average loan, and concluded that, after taking into consideration the business overhead, such as office rent, clerical hire, mechanical contrivances, electricity, supplies and other expenses, it could clear one-quarter of 1 per cent on the origi-

nal loan. Inasmuch as the expenses of renewing the loan will be considerably less, it is generally held that this business should show a fair profit in future years.

Perhaps the fact has escaped the attention of some bank officers that what is now considered an undesirably small loan will, within a few years, constitute desirable business, especially as the repayment of the principal and interest are guaranteed by the United States government. The average policy has a cash value of $1,000 when it matures in 1947. This year only $88 can be loaned on the certificate, but next year $120 can be advanced, $153 the third year, $188 the fourth and $263 in the fifth year. In the tenth year a total of $484.79 may be borrowed on the security of the insurance policy. In the years that follow, the loan value of the certificates increases year by year until their maturity will require Uncle Sam to lay his hands on more than two billion dollars to pay them off.

Generous Government Policy

FROM the outset, General Hines has assured the banks that the government proposed to be generous in its interpretation of the rules and regulations. Long before the certificates could be used as collateral for loans, General Hines announced that it would be the policy of the Bureau to redeem all loans, in event the borrowers failed to pay them after six months had elapsed.

As is to be expected, where several thousand banks start to make a new class of loans, there have been instances where the Veterans' Bureau was led to believe that a clear understanding did not exist.

"Some banks have raised the question as to the manner in which identification must be made," General Hines said. "The Bureau prescribes no exact formula, but each bank is free to use its own discretion in the matter. Likewise, there is no special form which the banks are required to use in notifying the Veterans' Bureau of loans made, nor is there any special form for use in notifying the veteran. An informal letter may be considered sufficient for both purposes.

"It seems that a clear understanding does not exist as to the method for computing the loan value on Adjusted Service Certificates. The proposition of figuring 90 per cent of the reserve value need not, as far as the veteran or the bank is concerned, enter into the computation. The loan value should be computed on the basis of the amount of the certificate and the loan factor table exclusively.

"The Adjusted Service Certificate should not be assigned nor should demand for payment be executed when a loan is secured. Only the note, Form 6615 (the printed form supplied by the government whereon the veteran promises to pay the amount borrowed with interest, and pledges his service certificate as collateral), need be filled out and completed. If the demand for payment is executed in error this does not invalidate the certificate in any way nor affect its value as collateral.

"Another important provision which it is essential that the banks adhere to is that interest may not be collected in advance, but must be collected in arrears after it has actually accrued. In cases where a note is renewed by substituting a new note for an old one, the new note will be considered as a new loan. In cases where the date of maturity on a loan is simply extended, and no new note is executed, the original date of the note will be considered the date of the note for purpose of redemption.

"A number of certificates were issued in which the 'A' number (the serial number further identifying the service certificate) was omitted. The omission of such 'A' number does not invalidate the certificate nor injure its value as collateral in any way. In reporting loans on such a certificate, the certificate number shown in the lower left-hand corner should be used in place of the 'A' number."

During the first few months of the present year 5000 loans were being made daily.

As most of them were extended for six months, it is not possible to obtain accurate figures to forecast what percentage of the borrowers will take up their notes at the expiration of the initial period. It appears to be the opinion of most bankers that a relatively small number will take this course, and it is probable that most of the veterans will be inclined to renew the loan or substitute a new note for the old one, borrowing up to the limit.

Be that as it may, when any bank advances its funds to a veteran under this arrangement, it has the satisfaction of knowing that these doubtless are the only loans made by individuals where the United States government says: "If the borrower doesn't pay, we will."

New Facts and New Dollars

(*Continued from page* 784)

tool work. Another concrete example of the large "dividends of research" paid to a client of the same organization is reported thus: "Our investigation, at a cost of less than $1,000, in the manufacture of one item of supply resulted in a saving of over $110,000 a year."

Under "Topics in Wall Street" on the financial page of the *Times* on the date of writing this announcement appears: "Steel Corporation Plans Extensive Research"—as proof that the largest industrial corporation in the world is convinced that the trade of new facts for new dollars is good business.

Among the well known corporations maintaining research laboratories are the following:

Aluminum Company of America, Cleveland, Ohio.

The American Brass Company, Waterbury, Conn.

American Chain Company, Bridgeport, Conn.

American Institute of Baking, Chicago, Ill.

American Telephone & Telegraph Company, New York City.

Bakelite Corporation, New York City.

Bell Telephone Laboratories, New York City.

Two prominent researchers—G. W. Elmen, left, inventor of Permalloy, which increases the speed of message five times, and W. G. Houskeeper, right, inventor of the copper to glass seal used in large vacuum tubes

Copper and Brass Research Association, New York City.

E. I. Du Pont de Nemours & Company, Wilmington, Del.

Thomas A. Edison, Orange, N. J.

Eastman Kodak Company, Rochester, N. Y.

General Electric Company, Schenectady, N. Y.

General Motors Corporation, Detroit, Mich.

The B. F. Goodrich Company, Akron, Ohio.

Mellon Institute of Industrial Research, Pittsburgh, Pa.

Metal & Thermit Corporation, Jersey City, N. J.

National Canners' Association, Washington, D. C.

Standard Oil Company, New York City.

Union Carbide and Carbon Research Laboratories, Inc., Long Island City, N. Y.

United States Steel Corporation, New York City.

Westinghouse Electric & Manufacturing Company, East Pittsburgh, Pa.

The drama of science is written in the fabulous wealth which lies hidden all about us—just beyond our reach. In the earth beneath our feet, in the air we breathe, in a lump of metal, a handful of chemicals—the mother lode of pay dirt is secure—until the Aladdin's Lamp of research lights the way.

(There will appear in the June JOURNAL a second article of this series on research. It will deal with research in specific industries as a whole, its importance as a factor in the industrial structure of the United States, and influence of research in Europe on American industry and markets.—Ed.)

Banks Can Beat

(*Continued from page* 810)

In the larger cities, however, this plan has not been given a thorough trial, as congestion means confusion, but it is workable and can be extended to the cities, but not without the cooperation of other business men located within convenient range of the bank and organized, equipped and drilled to understand and answer the silent automatic alarm. Bankers in many cities could profit from the experience of those in the smaller communities, where the vigilante quick-firing system has worked wonders. Business men in other lines, and particularly jewelers and diamond merchants, should be interested in any cooperative movement that bodes ill for the criminal. Crowded thoroughfares have always been choice stamping grounds for criminals, and tall buildings mean elevators and more floors, and these give crooks so many more hiding places and exits for escape. To be effective, therefore, any vigilante campaign in the cities must be decentralized and worked upon the silent alarm principle, so that enough trained marksmen will be outside the place attacked within two or three minutes after the alarm has been struck. Five minutes is often too late.

It must be apparent to all bankers and business men that the smart criminals of today, concentrating and planning as they do upon a definite objective, are always a few steps ahead of their victims. Ordinary safeguards, therefore, leave the victims crawling on the floor or herded into the vault, panic-stricken and unprepared to do more than pay tribute, thankful for keeping body and soul together. Yet this situation is largely due to the same victims' excessive reliance upon indemnity of financial loss through insurance and a very moderate use of effective means for crime prevention. It is truly a modern version of "Cold pausing, caution's lesson scorning," and, unless business men and bankers awaken to the real needs of the situation with a more diligent and determined effort toward prevention, crimes of opportunity will spread so that society and not the criminal will become the underdog in its contest with criminality.

John Henderson, clerk in the Comptroller of the Currency's office at Washington, makes toys and articles out of old paper money after it has been destroyed in the huge steel macerator

A Few Unusual Rules in a Well Run Bank

(*Continued from page* 825)

sooner than it was under the open charge account system. Furthermore, the existence of the ten-pay-plan was found to promote cash sales as the clothing salesmen, when questioned as to the price of suits has an opportunity to point out the saving that may be had by paying cash.

"This revelation spurred me to make a further inquiry among the officers of some of the large stores, which catered to the so-called better class of trade, to ascertain how long their charge accounts ran before they are liquidated. To my surprise, I learned that many of the wealthy people, who I knew were amply able to write out a check for a thousand dollars without making a dent in the balances they carried at their banks sometimes took a year to pay their bills. A jeweler, who served a wealthy clientèle, explained that he had to add a year's carrying charge to the sales price to make a fair profit. This was necessary, he explained, because if he sent out bills to his wealthy customers they would be offended—and take their patronage to one of his competitors. Of course, this experience is not representative of the bulk of charge accounts, but it throws light on the adoption of the deferred payment plan by some of the most conservatively run stores.

"By following the advertising of our mercantile customers, we are better able to deal with their financial problems when they bring them to us.

"We are witnessing rapid changes in business, due to the widespread use of substitutes for materials of long-standing common acceptance, the adoption of new styles and the increasingly higher standards of living. Think of how the automobile has cut down the consumption of men's shoes—with the resultant effect on the tanning industry, the growers of cattle and other allied interests! Consider how the short skirt style has affected the manufacturers of women's clothes, silk stockings and shoes. Just ponder how the hand-to-mouth buying system has changed credit needs. As just one example among many which might be cited, is it not worth while for the banker to consider how the growing use of quick drying lacquers, which may be applied with spray brushes, are going to affect the paint and varnish makers, the retailers, the painting contractors, the growers of flax, the naval stores interests and others, who are affected by the new surface coverers which have come from the chemist's laboratories?

"With business in this fluid state it is becoming increasingly necessary for the banker to keep posted of coming changes in business. This accounts for another rule in our bank. We make a practice of passing on to the businesses we serve information which we think would be of aid to them in their future plan. It indicates to them that we are taking a sympathetic interest in their problems and that we are qualified to advise them in their financial requirements. It seems to me that such a practice could be followed with profit by banks everywhere."

There is a binder for the AMERICAN BANKERS ASSOCIATION JOURNAL. It holds 12 issues; sent anywhere in the U. S. for $2.

Group Subscriptions

More banks are being added each day to the list of institutions providing officers and employees each with his own copy of the JOURNAL, sent to the home.

The information published in the JOURNAL each month is useful in the daily work of the bank, and the warnings given in the Protective Supplement give additional protection.

Champion Borrower

(*Continued from page* 785)

of hogs. Just as soon as he got the returns from the sale, he promised me, he would cut his indebtedness to us in half. Giving some weight to the suspicion held by one of my associates, I requested him to make an additional financial statement. I asked him if he had any other bank account, and he said "No!"

Not long after that one of the messengers in our bank saw Pat making a deposit in another bank, and he reported this to me. I summoned Pat to my office, told him that he had been observed making the deposit and asked him what it meant. He promptly replied that the deposit had been given to him by a neighbor to bring in, and that he was simply accommodating him by acting as a friendly agent. This appeared to be a reasonable explanation—and so the matter rested.

How the Blowup Came

ABOUT a month later Pat rushed into the bank. He was visibly excited and in a terrible mental state.

His opening statement to me was: "My God, man, I never intended to defraud you."

I knew the blowup had come.

"Credit has been so cheap that I have been borrowing from one bank to pay another, hoping that the time would come when I would be able to pay all," he added.

Here is how the other banks found out about his quintuplicate borrowing:

The president of a bank, which I shall call The Third Bank, knew that Pat was planning to ship several carloads of hogs. (It developed later that Pat owed this banker about $20,000 and had promised him, as he had promised me, to reduce his indebtedness as soon as the transaction was completed.) The banker was chatting with one of Pat's neighbors and inquired rather casually whether Pat had shipped his hogs. "Yes," the neighbor replied. "Simms and I shipped our hogs together. We have got our returns and have deposited them to both of our credit down at The Fourth Bank."

It was news to the banker that Pat should be doing business elsewhere, so he went around to The Fourth Bank and sought to interview the president, who was just about the most conservative and tight-mouthed banker I ever knew.

After a few preliminary words, the two bankers got down to brass tacks.

"Mr. Jones," the uneasy banker said, "I would like to check up with you on Pat Simms."

"Well, as you probably know, I make it a practice never to talk about the accounts that people have at our bank," he was told. "However, I may say that Mr. Simms is one of our best customers and one of the most respected men we have on our books."

"That may be true," the head of The Third Bank persisted. "But does he owe you any money?"

A pause ensued, but before the unbroken silence had become impressive, the inquiring banker stunned his reticent friend by volunteering the information that Pat owed The

Third Bank $20,000. With this news, restraint vanished as Mr. Jones admitted that Pat owed his bank $12,000. Joining forces, the two bankers set out to protect their interests. They forced Pat to agree to sell all of his personal property, the most valuable of which was the livestock. They made him deed over his farm to them and tried to get additional collateral in the form of some city property. Pat firmly refused to give up any more.

Holding Out Collateral

IT was at this juncture that he came to see me and confessed about his multiple borrowing. He related how he had deeded over his farm and sold his personal property to satisfy the claims of these other two banks. To ease my anxiety, he told me that he had not turned over all he had to the other banks, but had "held out" four small houses located in town to serve as collateral for the debt he owned our bank and The Fifth Bank. It was the first inkling that I had that he had been borrowing money from this bank, so it was true that he was in debt to every institution in town!

I tried to get Pat to turn over all four of the houses to me to be sure that I would not sustain any loss. He would not do it, as he insisted that he had to reserve something for The Fifth Bank. He was steadfast—so, failing, I realized that the most sensible thing to do was to get together with this bank for self-protection. When I related what had happened to the president of The Fifth Bank, he blew up. Realizing that the four small houses would not be of sufficient value to pay off our claims in full, he stormed and fumed, insisting that we should go to the other group of bankers, which had taken over his farm and personal property, and tell them that we would go to court before we would let them take the cream of his estate and leave us with the skimmings.

"We'll throw him into bankruptcy," he thundered. I reminded him that the law prevents anyone from throwing a farmer into bankruptcy. The upshot of our conference was that we decided to get what property we could and make ourselves reasonably safe.

News that Pat was involved traveled swiftly to The First Bank. The president of The First Bank called the champion borrower into his inner sanctum, made him admit that he had lied to obtain credit, and, as his father-in-law was on his note, called on the indorser to make it good.

Shortly after this, death claimed the disillusioned old father-in-law. When the will was probated, it was found that he had left a valuable farm to his daughter, but it was provided that she should have only a life interest in it, the farm passing on to her children at her death. A bright lawyer appeared on the scene who believed that where there's a will there's a way to break it. Later he gave us his opinion that the will could be set aside under Shelley's Rule of Law. The Fifth Bank joined with us in a legal battle to have the will of the father-in-law declared invalid, so that Mrs. Simms would be declared to have a fee simple title to the farm. The effort was successful, and the farm was duly sold. We were paid in full. The Third Bank and The Fourth Bank never divulged how they came out. The supposition was that they had a little loss.

It was thus that the tangled affairs of Pat Simms were straightened out.

Making Credit Too Cheap

LOOKING back on the whole affair, I do not believe that Pat Simms intended to be a crook. He just went from one bank to another carrying money, making pay-

ments and borrowing more. He was doing lots of trading, and evidently losing more and more as he went along. He hoped to make enough money to pay everybody, but he failed. Only the peculiarities of the case made it possible for him to get so involved. All of the bankers were under the impression that he could neither read nor write—and until this day I do not know whether this was true or false. The fact that he was an industrious fellow and related to a well-to-do and highly respectable family gave him the needed prestige.

The moral of the story, as I see it, is this: We bankers ought not to be too anxious for business. I do not believe that Pat had any intention of defrauding any bank—although he was crooked to the extent of lying about his borrowings from other banks. He just found credit so cheap that he thought he was a big man. With credit so easily obtained, he was tempted to speculate. He got beyond his depth and blew up. We bankers ought never to make credit that cheap.

Had there been a clearing house with credit bureau facilities in our town at that time, this kind of a transaction would not have been possible.

While this is the worst case of multiple borrowing I personally ever knew of, I cannot say that it constitutes a record. I heard the story of the fellow who borrowed from every bank in his own county!

The Savings Account

A new savings account, started with a few dollars is but a small thing in the day's business, but how great its possibilities. For the saver it may mean the first step in a career of usefulness in so great a degree that many men and many banks will one day be the better and the richer through the work of the obscure young man who today opens such an account.

Official Notice

¶STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS of AUGUST 24, 1912, of the AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for April 1, 1927.

¶State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposes and says that he is the editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor, James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y.

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given): The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary, unincorporated association of banks: Melvin A. Traylor, First Trust and Savings Bank, Chicago, Ill, president, and Fred N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.)

¶3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

¶4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona file owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds or, other securities than as so stated by him.

¶5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is..—— (This information is required from daily publications only.)

JAMES E. CLARK
Editor.

¶Sworn to and subscribed before me this 16th day of March, 1927.
¶(My commission expires March 30, 1927.) [SEAL] Lucille P. Gropp, Notary Public.

Printed Figures

(Continued from page 829)

vides for every possible transaction. The maximum in protection is given against fraud. All information necessary is registered. The service rendered is rapid and complete. The equipment is convenient and economical. The figures are always the same, and there is no chance for error or dispute in reading.

The operation is simple. No trained operator is necessary. The customer presents his passbook with deposit or withdrawal ticket, whichever it may be. The teller pulls the corresponding ledger card and inserts this, with the book, into the machine. He draws the proper line, picks up the amount of the old balance, lists the account number, registers the amount of deposit or withdrawal, and the machine automatically extends the balance. The passbook is given back to the customer, and the transaction is entirely completed. At the end of the day there is no need to repeat all of the day's work by posting the ledger cards. Tellers simply prove their cash against the accumulated totals that are always available for balancing. Activity figures are provided that show the individual figures for each teller, and the number of each kind of transaction.

Removing Temptation

TELLER temptation is removed. Employees are put above suspicion in the handling of their records. It is impossible to hold up money or a deposit ticket even for a day, because the amount of the deposit is simultaneously printed on the passbook, the ledger card, and the locked-in audit strip, and must be accounted for by the teller each night. All three records being identical, the proving of one establishes the accuracy for all. The teller will not accept a receipt for a smaller amount than deposited, so he, therefore, automatically becomes the auditor of the ledger record. The locked-in audit strip is a permanent history of each day's business, and completely and fully describes each transaction in the order in which it occurs. If a ledger card should become lost or destroyed, a new ledger record can be reproduced from the audit sheets.

Printed figures prevent posting to the wrong account by providing five checks against this error. The teller compares name, number, balance, line number for the entry, and prints the book number on the ledger card. These safeguards are present on every posting because the teller is forced to refer to the ledger card at the window where the posting occurs.

Special provision is made for the correcting of errors. The machines are equipped with "deposit correction" and "withdrawal correction" keys. All corrections must be okayed by some officer.

Printed figure service is a better depositor service. Customers are impressed by the neatness and arrangement of the figures. Confidence is created. The unit system of paying and receiving may be safely adopted and enables you to give faster and better service. The flexibility is great and peak loads are handled easily.

Now the question is raised: "Which is the more expensive, from the standpoint of cost of operation, the pen and ink or the printed figure method?" The pen and ink method is by far more costly. There is a repetition of practically all of the operations. With bookkeepers and bookkeeping equipment, of course, more floor space is required.

The printed figure system is beyond the experimental stage. Bankers are recognizing its advantages and are converting their savings departments. This, of course, means the changing of all forms and the transferring of all accounts. However, this is not as hopeless a task as it first appears to be. I know of one instance in which this change was made in a savings department that had 150,000 accounts.

WHAT DO YOU THINK?

Being a more or less personal talk between the **EDITOR** *and the* **READER**

"I'M going to deliver an address and I want some material," is a line that appears in letters coming to this office.

Always we have sympathy with the man who has a speaking engagement looming up before him at a time when the daily grind does not give him any too much time to keep ordinary affairs under his feet. Thus far we have not failed to send him a sheaf of matter calculated to stimulate his ideas.

As there comes to us day by day from near and far the material from which speeches are made, we always are glad to make an offering from which a delectable repast may be selected. If you have to prepare a speech, or write a paper, or do any other piece of work calling for a collection of data running over a course of years, we are willing Barkises, for we think that the man who has to make a speech is entitled to such treatment as might fairly be classified as first aid to the injured.

What Do You Think?

Will Rogers and the Statisticians?

"I WISH to say," writes a correspondent, "that I think the addition of the attractive covers to the Journal have created a different feeling toward the magazine. It seems more human and interesting. Before it looked too dead and dry to be enticing. The average banker must be given his information with a sugar coat of attractiveness. Statistics are dry. Will Rogers can get over more information upon public questions in one paragraph than the most profound statistician, I mean get it down where the man on the street will understand."

What do you think?

The Big Kick in Banking

WHAT, as the younger generation expresses it, is "the big kick" in being a banker?

Reeves Schley, who is a vice-president of the second largest bank in this country, says the most fascinating element in the life of a banker is having a "sustained interest in the general development of the business community in which he resides."

There may be more dramatic elements in the career of a lawyer or a statesmen, he concedes, but the satisfaction the banker gets in knowing that he has been a part in the upbuilding of an individual, a business or a community more than makes up for the lack of the dramatic.

David Harum's Advice

WHEN the book, "David Harum," dealing with an American banker, was a best seller, its quaint philosophy was much quoted. Particularly popular was this piece of back country advice, at sharp variance with later-day thrift literature and thrift movements:

"Boys," he said, "whenever you get holt of a ten dollar note, get it into you or onto you as fast as you can, for we are here today and gone tomorrow and there ain't no pockets in a shroud."

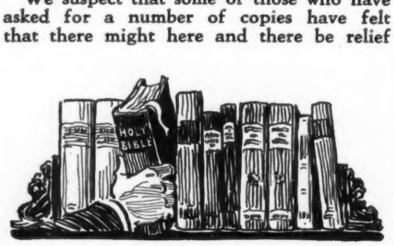
The full influence of a book is neither tangible nor traceable. Perhaps in those slower more cautious times the philosophy did no harm and perhaps was even beneficial for there had been comparatively little discussion of the thought that there can be no business if there is no buying, and that excessive thrift is not an unalloyed virtue. If the book were needed in the days of its first popularity to speed up spending it is well that it came out when it did, for the "boys" of today need no such stimulus to make them contribute to good business.

What Do You Think?

There Is a Copy for You

A LITTLE dissertation on advertising published as a booklet with the title, "A Personal Letter to a Young Advertising Man," and distributed gratis from this office has been in such demand that there has been a reprinting—not, we are frank to say, due entirely to the demands of the young men for it, but to the demands of more mature men, and all of them have not been advertising men.

We suspect that some of those who have asked for a number of copies have felt that there might here and there be relief



for readers and more sales for advertisers, if some of the advertising that we see day by day were oriented on new lines.

Whatever the reason may be, the new printing is now ready for distribution. It is free. The gist of the letter is that the best book we have on advertising—and that includes bank advertising—is the Bible.

What Do You Think?

Happiest Man in Kansas

WE can imagine Old Man Trouble and Old Man Gloom wending their way across the land and depressing and blighting the hopes of everyone as they go until they encounter Will Wayman, president of the Emporia State Bank at Emporia, Kansas. We can imagine him looking them over in merriment and hearing him exclaim: "You fellows make me laugh!" Writing under date of April 21, he says:—

"This whole country from here East, Southeast, South and Southwest is covered with water and has been for a month and it is unnecessary for me to say that from

an agricultural standpoint we are being thoroughly soaked and drowned. Much of the wheat on the bottom land throughout the country South, Southeast and Southwest from Emporia is badly damaged or lost entirely. It is corn planting time now and if it quits raining at this time, it will be two weeks before any corn can be put in the ground, but with all of these pessimistic statements in this paragraph, we are the happiest darned bunch that there is in the United States and we don't give a darn if it does rain and flood, we will come out on top financially and every other way in the end! I am, as usual, the happiest man in Kansas, feeling fine every minute and regret that I am not a member of your Council and meeting with you the first of the month."

What Do You Think?

Made by Hand

IN all of American financial history there is nothing that is a better combination of quaintness, humor, pathos and hope than is found in the first issue of paper money in the Colony of Massachusetts. Laboriously made with a quill pen, drawn, written, printed as children sometimes print little tokens when at play, these bills might properly have borne the modern slogan of quality, "Made by Hand."

Made by hand it was, because there was available no better way to make it; but it served its purpose—and passed on. Looking back from these times of prosperity and of abundant money, these two qualities stand out among the leaders of the Colony in their issue of paper money—courage and hope.

The Journal's June cover will portray the first issue of paper money in America, one of the most interesting in the series, wherein we give glimpses of the banking and currency in the days when the land was young.

Though the series is still young there may perhaps be in the very early history of banking and currency—incidents or events of more appealing human interest than any thus far depicted by the artist. We would like to have suggestions from our readers.